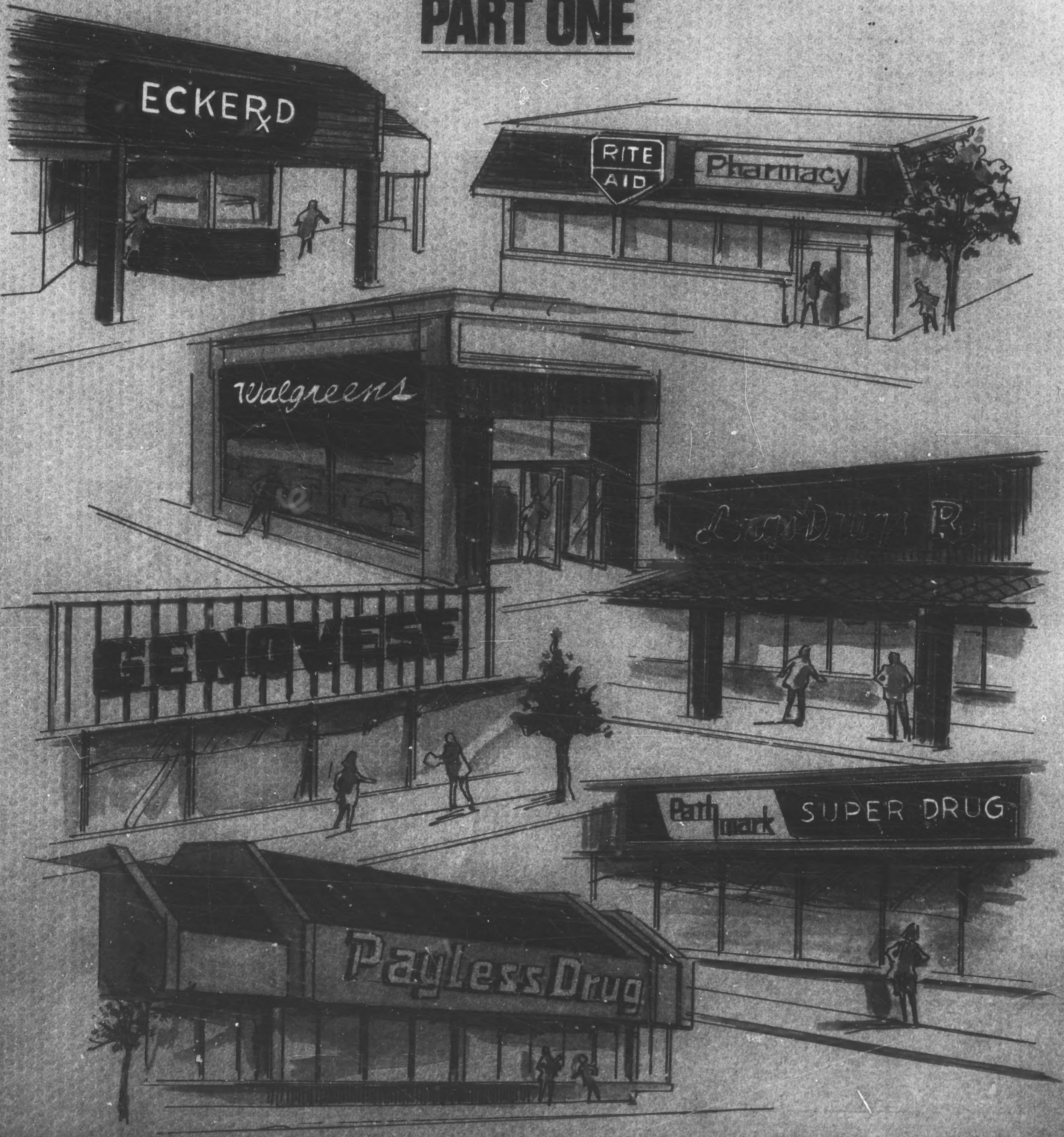
DRUG STORE NEWS®

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART ONE


ECKERD
RITE AID
Pharmacy
Walgreens
Longs Drugs
GENOVESE
Pathmark SUPER DRUG
Payless Drug

1986: Tumultuous year for chains

Buyouts, takeover threats, acquisitions rock industry

Give 1986 an 8-plus rating on the retail drug earthquake meter.

While sales growth was modest—up just 7% for the year—the frenzied pace of leveraged buyouts and acquisitions, unfriendly takeover threats and management realignments was enough to keep things moving and shaking.

Adding to the unsteadiness: the lackluster economy, consumer wariness and fierce competitive environment.

Many companies simply scurried to the equivalent of the storm cellar, trimming whatever fat was still on the bone and cutting back store growth and diversification.

Large-scale acquisition

For others it was rock 'n roll time. Walgreens and Rite Aid, for example, mounted incendiary displays of market growth—Rite Aid with its thrust into Florida and Walgreens in all of its markets, but particularly the Northeast with its acquisition of Medi-Mart.

What's more, Jack Eckerd Corp. defied conventional wisdom that says a company should scale back growth plans after a leveraged buyout. In a move seen as both offensive and defensive, Eckerd acquired 32 Shoppers Drug Mart stores in Florida from Peoples.

On a smaller scale, Arbor Drug continued its fast-track growth from small to large regional chain by picking off Sentry Drugs in Michigan and then moving on to test the retail waters of the Carolinas.

LBO reverberations

While acquisitions added tremors to the year's news, it was the leveraged buyouts of some of the biggest companies and management changes at the highest levels that generated the heaviest shockwaves.

Eckerd began the year's LBO parade when it shook off the effects of a hostile takeover bid by Herbert and Robert Haft's Dart Group and went from publicly owned to private company via a management buyout.

Eckerd's buyout was followed by Revco's. Then came LBOs by the managements of Hook-SupeRx and Gray Drug Fair.

In all, more than $6 billion in sales volume was involved in the four deals—almost one-quarter of last year's total chain drug revenues—as well as more than 4,500 stores.

Haft role

The Haft family's Dart Group played a role in two of last year's chain drug LBO stories—a major one in Eckerd's case and a bit part in the drama leading up to the Revco buyout. Dart Group had sought a role in the Revco deal, but was rebuffed by management.

The maneuverings of the Hafts provided ongoing drama throughout the year. Shrewd, tight-lipped, yet oddly colorful, the Hafts used the millions acquired from savvy investments in real estate and retailing to mount assaults on some of the giants of retailing, including Safeway. Dart made $140 million on its Safeway investment alone.

As this article was being written, the Dart Group was bidding for yet another major retailer, Supermarkets General Corp. SGC, considered one of the better managed food/drug retailers, was clearly not happy at the prospect of Dart's possible takeover, yet its officials, in their responsibility to shareholders, had to consider that possibility along with others, including a white knight or a management LBO.

Antitakeover measures

The threat of hostile takeovers settled like an ominous cloud over the industry's public companies. During the year, chains including Walgreens, Longs, American Stores and Genovese enacted antitakeover measures. No measure could stop a really determined suitor, of course, but the companies that set up defenses wanted to make the potential pricetag seem formidable to an unwelcome bidder.

At the same time, the best defense was to keep the price of outstanding shares as close as possible to their true worth based on the value of the company. This would discourage bargain hunters looking for quick profits by putting an under valued company in to play. Vulnerable companies worked hard to keep their price/earnings ratios high.

Though the trend has been to private ownership through LBOs, one company that moved in the opposite di-

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Evolving character of the chain drug industry

Chain store size	No. of companies 1976	No. of companies 1986	% change	No. of stores 1976	No. of stores 1986	% change
2-3 store companies	2,154	1,093	−49%	4,859	2,518	−48%
4-10 store companies	491	337	−31	2,599	1,901	−27
11 or more store companies	173	120	−31	11,399	17,511	+54
Total no. of companies with 2 or more stores	2,818	1,550	−45	18,857	21,930	+16

Source: Chain Store Guides

Inside 1987 Annual Report

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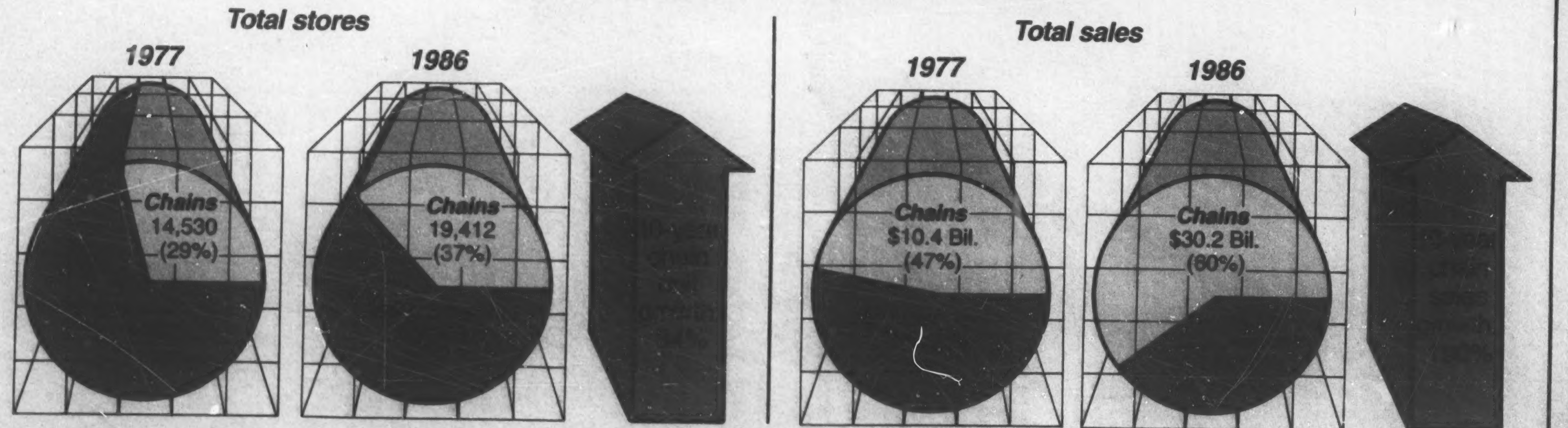
Chains vs. independents: A decade of change



Source: A. C. Nielsen Co. and Chain Store Guides

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

10-year sales share trends
$ sales in billions

Year	Total sales	Chain share	Indep. share
1986	$50.2	60%	40%
1985	47.0	60	40
1984	43.2	59	41
1983	39.7	57	42
1982	36.2	57	43
1981	33.4	55	45
1980	30.3	54	46
1979	27.2	52	48
1978	24.3	50	50
1977	22.5	47	53

Source: A. C. Nielsen Cc.

Continued from page 56

rection—from private to public ownership—was Pay 'n Save. The Seattle-based drug chain said it planned to use the proceeds from last year's sale of stock, bonds and notes to purchase Bi-Mart, the membership discount drug and general merchandise chain; to pay off some of the company's heavy debt load; and to expand its central distribution system. The chain was still struggling in the early part of this year to reverse last year's losses.

Management changes

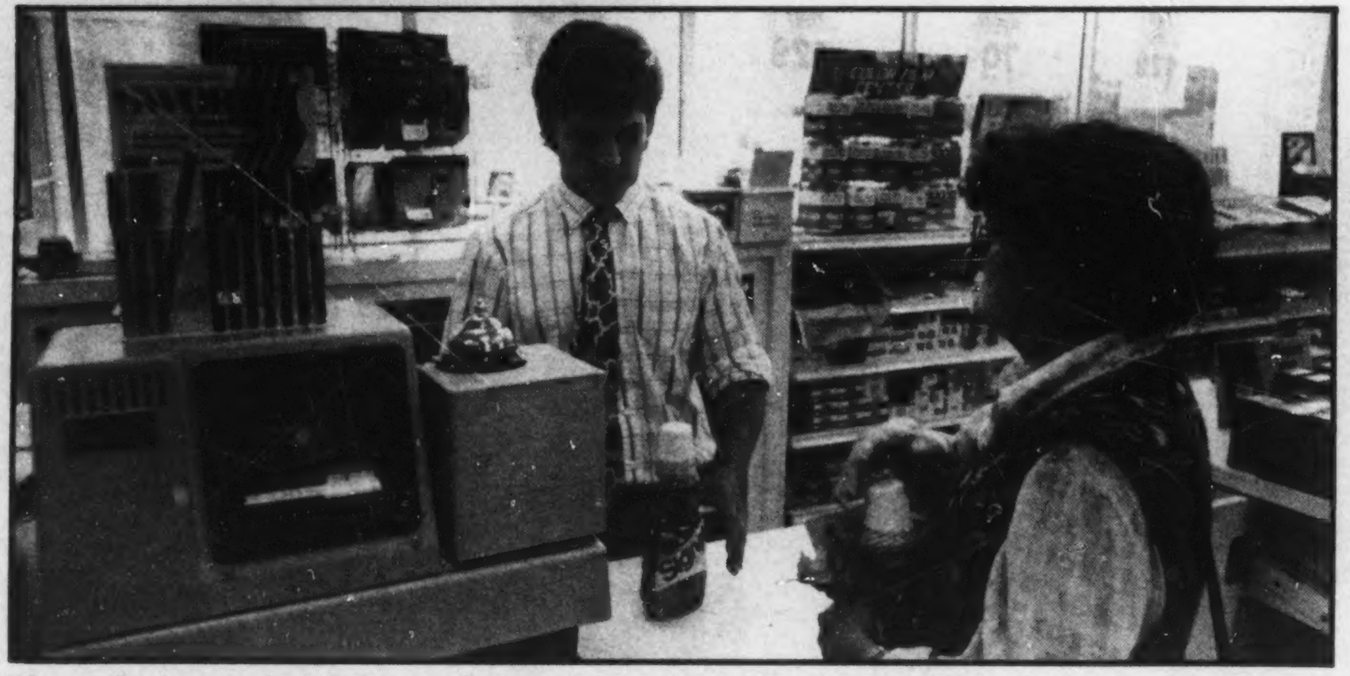
If LBOs, acquisitions and market shifts consumed a hefty portion of last year's news pages, some of the management changes that occurred were equally attention-grabbing. The changes seem to fit—indeed to magnify—the industry's mood of anxiety.

Perhaps the biggest shock was the retirement of Sheldon "Bud" Fantle, the Peoples Drug Stores chairman. Fantle had been credited with welding a small group of regional chains into a billion-dollar, multiregional retailing power. But following a record performance in 1985, Peoples slipped from profitability last year. Its trouble was blamed on problems with its new mid-Atlantic distribution center in Fredericksburg, Va., and to overly fast expansion and diversification.

Peoples' Canadian-based parent company, Imasco Ltd., named David Bloom to oversee both Peoples and Shoppers Drug Mart, Canada's largest drug chain. David Eisenberg, who had earlier been named executive vp and coo, was called on to head up Peoples' daily operations under Bloom.

In other major management surprises, Dan Herrmann resigned as president of Fay's, and Don Fox as president of Perry. Both men had been with their companies since their beginnings.

On the West Coast, the owners of Pay 'n Save tapped Gerald Nathanson, a former McCrory's exec, for the job of bringing the Seattle-based chain back to health. Nathanson, who was named vice chairman and ceo, replaced Allen Mac Culver, who resigned. Maynard Jenkins, Pay 'n Save's president and coo, later quit to join a small California retail hardware chain.



More chains tested POS cash registers with scanning in 1986. Industry leader was Rite Aid, shown above.

10-year drug store growth trend

Year	Total stores	Chain stores	Chain share	Indep. stores	Indep. share
1986	52,800	19,412	37%	33,388	63%
1985	52,500	18,550	35	33,950	65
1984	52,139	17,677	34	34,462	66
1983	50,264	16,733	33	33,531	67
1982	49,400	16,347	33	33,053	67
1981	49,310	14,664	30	34,646	70
1980	49,192	14,815	30	34,377	70
1979	48,822	15,110	31	33,712	69
1978	49,151	14,709	30	34,442	70
1977	49,397	14,530	29	34,867	71

Source: Chain Store Guides and Census Bureau

10-year sales trends
$ sales in billions

Year	Total industry	% change	Total chain	% change	Total indep.	% change
1986	$50.2	7%	$30.2	7%	$20.0	7%
1985	47.0	9	28.2	11	18.8	6
1984	43.2	9	25.5	12	17.7	5
1983	39.7	10	22.8	11	16.9	8
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6
1978	24.3	10	12.1	16	12.2	4
1977	22.2	8	10.4	14	11.7	4

Chain sales are for companies with four or more stores.
Source: A.C. Nielsen Co.

Mass merchandisers with pharmacies

Company	Headquarters	Total stores	Number of stores with Rx depts.	% of total stores with Rx depts.
K mart	Troy, Mich.	2,086[A]	1,022	49%
Wal-Mart	Bentonville, Ark.	1,009	474	47
Fred Meyer	Portland, Ore.	94	88	94
Venture	St. Ann, Mo.	67	38	57
Pamida	Omaha, Neb.	166	30	18
Target	Minneapolis	252	18	7
Fedco	Santa Fe Springs, Calif.	9	9	100
Cook United	Maple Heights, Ohio	29	8	28
Ames	Rocky Hill, Conn.	321	8	3
Gold Circle	Worthington, Ohio	76	7	9

Source: Drug Store News survey
[A]K mart figure are U.S. only

Industry sales gains reflect solid progress

The pace of leveraged buyouts and management changes overshadowed the industry's sales story, but the year was not without solid achievements.

For one, the drug store industry broke through the $50-billion barrier for the first time. And though the 7% growth rate was relatively modest compared with previous years' double-digit gains, it was nevertheless several points above inflation in a year in which drug retailers were subjected to withering fire from price-driven competitors.

Significantly, independents matched the chains' percentage gains in sales—though not, of course, in dollars. Independents, more than 60% of whose sales volume derives from prescriptions, benefited from the higher inflation rate of pharmaceuticals.

Chains also emphasized their pharmacy departments, including computerized record-keeping and fast service, in order to build sales. They also got into mail-order and nursing home pharmacy services and bid vigorously for HMO and other third-party business.

The emphasis on pharmacy was just the centerpiece of an overall strategy to focus on traditional drug store categories and to hack away at the accretion of oddball merchandise that had found its way into drug stores over the years.

In addition, the chains began to experiment with a variety of new formats to enhance sales, formats with stronger presentations of key image departments like cosmetics and greeting cards.

The new formats featured better department adjacencies based on a deeper understanding of how customers—largely women—shop drug stores, as well as on the demographics of various markets.

The drug chains also continued to improve their product mix based on increasingly sophisticated front-end movement information.

Chains put more and more emphasis on pharmacists communicating with patients, and pharmacy departments led the way in 1986 sales growth.

Store format experimenting increases in '86

The year 1986 ushered in a new wave of store format experimentation and also brought more blurring of lines among traditional drug, food and mass merchandise retailers.

Woolworth, for example, tried out a new specialty cosmetics format called Face Fantasies in three mall locations in suburban Atlanta markets. The move by the variety store merchandiser into cosmetics followed its earlier plunge into the deep discount drug store arena, via its Rx Place stores.

The 1,500-sq.-ft. Face Fantasies outlets feature some 3,000 sku's, mainly in the budget- and mid-priced range, a direct threat to the assortments carried by drug stores.

Off-price hybrid

While Woolworth was experimenting with another specialty format, Pay Less was beginning to roll out a new off-price hybrid to add to its array of retail formats. The new prototype, called Wonder World, made its debut in over-stored Bozeman, Mont.

Pay Less' new 55,000-sq.-ft. hybrid draws on the strengths not only of its traditional super drug stores, but also of Value Giant, the Oregon-based retailer's deep discount drug and general merchandise outlet, and its parent K mart.

While Wonder World has many of the features of the three—including off-price apparel—the first handful of stores, in Montana and Texas, contained no pharmacies, a cost-saving measure in the low-margin stores.

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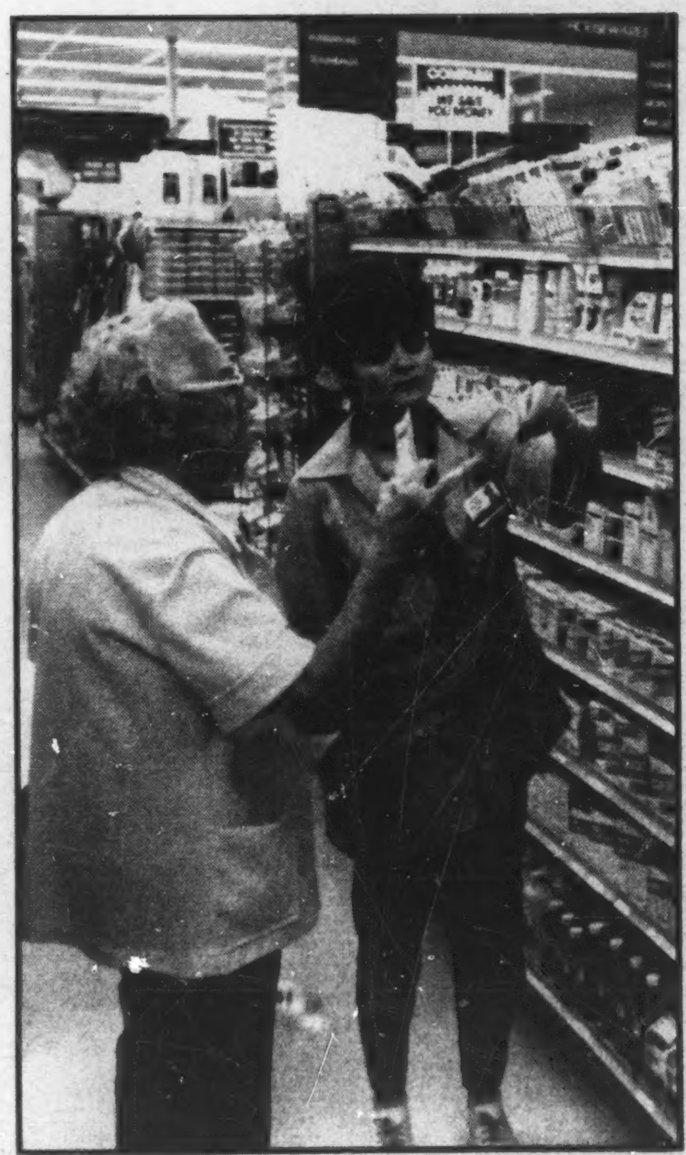


The elderly continue to grow in importance as drug store customers, and chains more and more are emphasizing service to this key demographic group.

Top 50 American drug chains: 1986 dollar volume

Rank	Headquarters	Drug store sales (in millions)	% change	Store totals	% change	Fiscal year ended
1. **Walgreens**	Deerfield, Ill.	$3,520	17	1,273	16	8/31/86
2. **Osco Drug**[C]	Chicago	3,000[E]	NA	666	25	1/31/87
3. **Revco**	Twinsburg, Ohio	2,743	15	2,031	7	5/31/86
4. **Eckerd**	Clearwater, Fla.	2,300[E]	NA	1,611	6	1/31/87
5. **Longs**	Walnut Creek, Calif.	1,635	10	222	7	1/29/87
6. **Rite Aid**	Shiremanstown, Pa.	1,602[A]	13	1,590[A]	14	2/28/87
7. **Peoples** (Imasco Ltd.)	Alexandria, Va.	1,274[E]	4	830[E]	− 1	3/28/87
8. **Thrifty**	Los Angeles	1,200	11	594	7	11/30/86
9. **CVS** (Melville Corp.)	Woonsocket, R.I.	1,181	16	629	6	12/31/86
10. **Pay Less NW** (K mart)	Wilsonville, Ore.	1,123[E]	12	219	22	1/31/87
11. **Hook SupeRx Inc.**[B]	Cincinnati	1,000[E]	NA	686	NA	8/31/87
12. **Thrift** (JC Penney)	Pittsburgh	666[L]	9	391	6	1/31/87
13. **Gray/Drug Fair**	Cleveland	578[E]	(14)	358	(18)	12/31/86
14. **Pay 'n Save**	Seattle	555	16[E]	140	31	11/1/86
15. **Fay's**	Liverpool, N.Y.	452	2	173[K]	11	1/31/87
16. **Drug Emporium**	Worthington, Ohio	425[E]	NA	112	NA	12/31/86
17. **Perry**[D]	Pontiac, Mich.	487	27	203	6	10/31/86
18. **Brooks** (Compact Video)	Pawtucket, R.I.	397	9	384	(9)	12/31/86
19. **K & B**	New Orleans	363[E]	5	147	6	9/30/86
20. **Genovese**	Melville, N.Y.	271	16	79	5	1/30/87
21. **Dart**	Landover, Md.	262	1	81	8	7/31/86
22. **Medicine Shoppe**	St. Louis	262	22	641	13	9/30/86
23. **Supermarkets General Drug Store Division**[F]	Woodbridge, N.J.	249	19	65	12	1/31/87
24. **F & M**	Warren, Mich.	249	25	28	27	10/3/86
25. **Snyder Drug**	Minnetonka, Minn.	215	13	55	0	7/31/86
26. **Big "B"**[G]	Birmingham, Ala.	210	20	163	23	1/31/87
27. **Arbor Drug**	Troy, Mich.	152	26	52	19	7/31/86
28. **Duane Reade**	Long Island City, N.Y.	150	15	26	0	10/31/86
29. **Rock Bottom**	Port Washington, N.Y.	140	12	22	0	1/31/87
30. **Super D** (Malone & Hyde)	Memphis	109	10	105	6	8/31/86
31. **Marc's**	Cleveland	103	NA	7	40	6/30/86
32. **Kerr**	Raleigh, N.C.	97	14	70	21	6/30/86
33. **Discount Drug Mart**	Medina, Ohio	94[E]	8	22	10	3/31/87
34. **Drug Fair of N.J.** (Community Distributors)	Somerville, N.J.	90	32	21	NA	7/31/86
35. **Phar-Mor**	Youngstown, Ohio	89[E]	NA	22	47	6/30/86
36. **Harco**	Northport, Ala.	87[E]	18.5	60	11	7/31/86
37. **Medicare-Glaser**[H]	St. Louis	84[E]	8	93	8	3/31/87
38. **La Verdiere's**	Winslow, Me.	83[E]	NA	60	0	1/3/87
39. **Taylor Drugs**	Louisville, Ky.	78[E]	NA	45	(2)	9/30/86
40. **Thrifty/White**	Minneapolis	77	NA	53	NA	4/30/87
41. **Rix Dunnington**[I]	Auburnvale, Mass.	75	15	114	− 1	1/31/87
42. **Bill's Drug**	Lafayette, Calif.	74[E]	NA	25	0	3/31/87
43. **A.D. Clark**	Los Angeles	73[E]	NA	19	0	12/31/86
44. **Standard**	Richmond, Va.	69	4	67	2	3/31/87
45. **Medi-Save**[J]	Baton Rouge, La.	67[E]	NA	154	5	5/31/86
46. **Wellby Super Drug** (Hannaford)	Portland, Ore.	59	18	37	3	1/3/87
47. **Begley Drug**	Richmond, Ky.	55	10	49	9	3/31/87
48. **Kinney Drug**	Gouverneur, N.Y.	52	10	30	7	12/31/86
49. **Pic 'n Save**	Jacksonville, Fla.	52[E]	NA	41	2	12/31/86
50. **Union Prescription Centers**	Milwaukee	42	NA	93	0	12/31/86

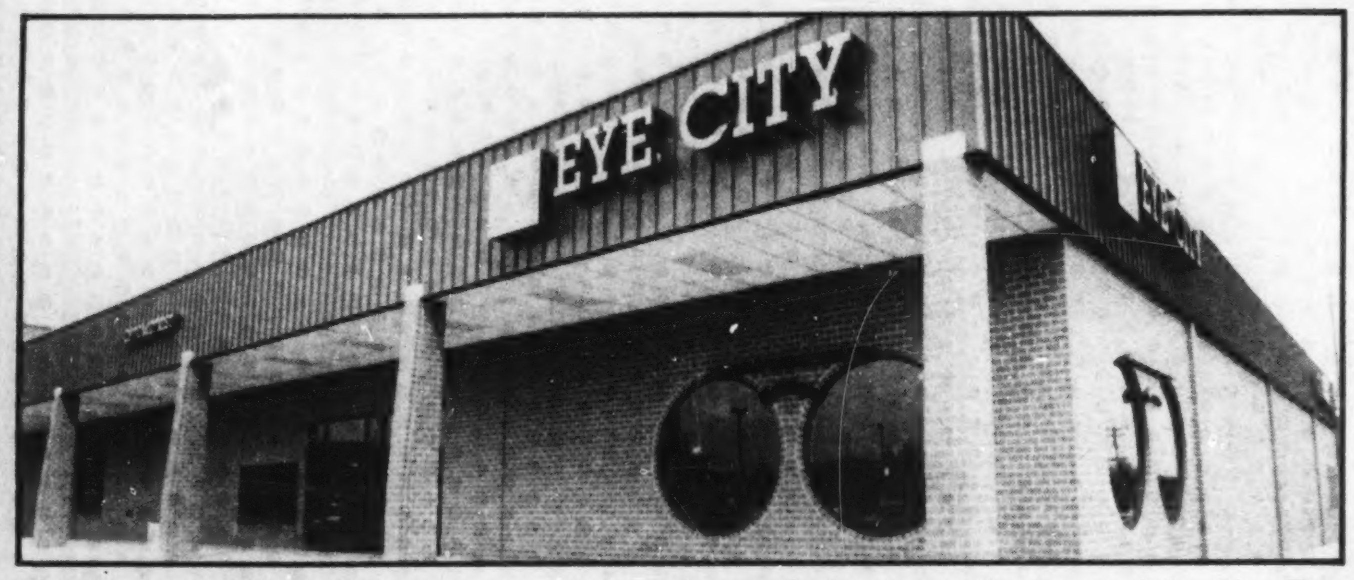
[A] Running 12 mos. ended Nov. 28, 1986. Gains are over the comparable period ended Nov. 30, 1985.
[B] Includes 375 Hook stores, 313 SupeRx stores, 26 Hook convalescent aids stores and 12 Drug Worlds.
[C] Does not include sales from food/drug combos.
[D] Includes sales from 53 drug store/auto/home center stores. Does not include separate autoparts or health care specialty stores.
[E] Estimate.
[F] Includes sales from 22 deep discount drug stores, but not from 127 food stores with pharmacies.
[G] Includes 150 drug stores, 5 home health care centers, 3 deep discount stores and 5 B-Mart combos.
[H] Includes 50 professional pharmacy stores and 43 full-line drug stores plus sales from medical service division.
[I] Operates 42 freestanding drug stores and 72 leased pharmacy departments in mass merchandise stores.
[J] Has 18 stores in medical office buildings and 11 freestanding, 103 licensed pharmacy departments in mass merchandise stores and 22 in non-retail institutions.
[K] Includes 13 Wheels and 5 Paper Cutter stores.
[L] Does not include mail-order or leased depts. in JC Penney stores.

Source: Drug Store News 1987 *Chain Drug Survey*

Top Canadian drug chains

Company	Headquarters (parent)	Drug store sales latest fiscal year (in millions Canadian)	% change	Store totals	% change	Fiscal year ended
1. **Shoppers Drug Mart** (Imasco Ltd.)	Toronto	$1,800[E]	16%	563	30%	3/31/87
2. **Pharm-Escomptes** Jean Coutu	Longeuil, Quebec	422	16	89	11	5/31/86
3. **Boots** (Boots United Kingdom)	Toronto London	350[E]	NA	180	− 1	12/31/86
4. **Big V**	London, Ont.	185	25	85	8	9/30/86
5. **Kent Drug**	Mississauga, Ont.	88	10	72	0	1/27/87

Source: *Drug Store News* 1987 Chain Drug Survey [E] Estimate



Peoples opened its first super-optical center early last year in Annandale, Va. The 13,000-sq.-ft. Eye City offers 6,000 frames with price points ranging from $9.88 to $309.88 in a self-service retail environment.

Retail diversification of major chains

Company	Store type	No. of stores	
		'86	'87
Walgreens	Home health	5	4
	Restaurants	94	153
Eckerd	Home health	6	8
	Eye care superstores	5	6
	Optical	135	110
Rite Aid	Home health	5	8
	Deep discount	20	25
	Auto parts	25	59
	Book stores	15	39
Thrifty	Sporting goods	86	134
	Discount auto parts	64	0
Perry	Home health	5	5
	Deep discount	4	8
	Auto parts	176	226
Peoples	Deep discount drug	5	9
	Home health	4	4
	Optical freestanding	5	4
	Eye care superstore	1	1
	Restaurants	NA	5
Begley	Home health care	6	6
	Dry cleaning stores	131	132
Big B	Home health care	6	5
	Food/drug combos	5	5
SupeRx	Home health care	NA	1
	Deep discount	21	12
Fay's	Auto parts	8	11
	Optical	NA	6
	Stationery	4	5
Medicare-Glaser	Optical	12	8
	Home health	1	1
Dart	Deep discount drug	5	5
Medi-Save	Optical	NA	1
Genovese	Photo supplies	NA	1
Harco	Home health care	NA	11
	Auto parts	NA	15
Snyder	Deep discount drug	NA	1
Thrifty/White	Home center	NA	1
Rix Dunnington	Home health care	NA	1
Drug Fair of N.J.	Deep discount drug	NA	8
Marc's	Restaurants	NA	2
	Close-out	NA	1
Shoppers Drug Mart	Home health care	NA	14
	Deep discount	NA	5

Source: Drug Store News 1987 Chain drug survey

Top 50 American drug chains: 1986 store totals

Rank	Headquarters	1986 Total stores	% change vs. year ago
1. **Revco**	Twinsburg, Ohio	2,031	8%
2. **Eckerd**	Clearwater, Fla.	1,611	6
3. **Rite Aid**	Shiremanstown, Pa.	1,590	14
4. **Walgreens**	Deerfield, Ill.	1,273	16
5. **Peoples** (Imasco Ltd.)	Alexandria, Va.	820	− 1
6. **Hook SupeRx**	Cincinnati	686	NA
7. **Osco Drug** (American Stores)	Salt Lake City	666	25
8. **Medicine Shoppe**	St. Louis	641	13
9. **CVS** (Melville Corp.)	Woonsocket, R.I.	629	6
10. **Thrifty**	Los Angeles	594	7
11. **Thrift** (JC Penney)	Pittsburgh	391	6
12. **Brooks** (Compact Video)	Pawtucket, R.I.	384	− 9
13. **Gray Drug Fair**	Cleveland	358	−18
14. **Longs**	Walnut Creek, Calif.	222	7
15. **Pay Less NW** (K mart)	Wilsonville, Ore.	219	22
16. **Perry**[A]	Pontiac, Mich.	210	6
17. **Fay's**[F]	Liverpool, N.Y.	173	11
18. **Big B**[C]	Birmingham, Ala.	163	23
19. **K & B**	New Orleans	147	6
20. **Medi-Save**[B]	Baton Rouge, La.	146	0
21. **Pay 'n Save**	Seattle	140	31
22. **Rix Dunnington**	Auburnvale, Mass.	114	− 1
23. **Drug Emporium**	Worthington, Ohio	112	NA
24. **Super D**	Memphis	105	6
25. **Union Prescription Centers**	Milwaukee	93	0
26. **Medicare-Glaser**[D]	St. Louis	93	8
27. **Dart**	Landover, Md.	81	8
28. **L. F. Widmann**	McElhattan, Pa.	80	1
29. **Genovese**	Melville, N.Y.	79	5
30. **Kerr**	Raleigh, N.C.	70	21
31. **Standard**	Richmond, Va.	67	2
32. **Supermarkets General**[E] **Drug Store Div.**	Woodbridge, N.J.	65	12
33. **Harco**	Northport, Ala.	60	11
34. **Medicap Pharmacies**	Des Moines, Iowa	60	NA
35. **La Verdiere's**	Winslow, Me.	60	0
36. **Snyder**	Minnetonka, Minn.	55	0
37. **Thrifty/White**	Minneapolis	53	NA
38. **Arbor**	Troy, Mich.	51	19
39. **Begley**	Richmond, Ky.	49	9
40. **Bee Discount**	Hillside, Ill.	48	23
41. **Taylor**	Louisville, Ky.	45	− 2
42. **Wil-Car Enterprises**	Portsmouth, Ohio	45	NA
43. **Kare Drugs**	St. Louis	45	NA
44. **Pic 'n Save**	Jacksonville, Fla.	41	2
45. **True Quality**	McKinney, Tex.	41	0
46. **Wellby Super Drug** (Hannaford Bros.)	Portland, Ore.	37	3
47. **White Drugs**	Jamestown, N.D.	37	NA
48. **Thayer Pharmacies**	Stoughton, Me.	31	NA
49. **Kinney Drug**	Gouverneur, N.Y.	30	7
50. **F & M**	Warren, Mich.	28	27

[A] Includes combo drug/automotive stores.
[B] Includes licensed pharmacies in mass merchandisers plus stores in medical office buildings and freestanding stores.
[C] Includes 150 drug stores, 5 home health care centers, 3 deep discount stores and 5 B-Mart combos.
[D] Includes professional pharmacy stores and full-line drug stores.
[E] Includes freestanding drug stores, but not pharmacies in food/drug combo stores.
[F] Includes 13 Wheels and 5 Paper Cutter stores.

Sources: *Drug Store News* 1987 Chain Drug Survey, Lebhar-Friedman Chain Store Guides.

Home health care as a category gained ground with chains in 1986, both in freestanding home health units and in-store departments.

Chain drug store remodels

Company	1985	1986	% of total stores—1986
Eckerd	NA	233	14%
Shoppers Drug Mart	175	225	40
Walgreens	61	89	7
Pay 'n Save	0	80	57
Rite Aid	NA	75	5
Thrift	NA	40	10
Medicine Shoppe	26	31	5
Pay Less NW	9	30	14
Medi-Save	20	30	21
Thrifty	NA	30	5
Big B	30	17	11
Taylor	11	11	25
Supermarkets General Drug Store Division	NA	10	15
Pharm-Escomptes Jean Coutu	11	10	11
Big V	NA	10	12
Genovese	6	8	10
Harco	6	6	10
Rock Bottom	6	6	27
Fay's	NA	6	4
Snyder	6	6	11
Perry	5	5	2
Rix Dunnington	5	5	12
Duane Reade	4	4	15
Kerr	4	4	6
Medicare-Glaser	6	4	4
Wellby	NA	4	11
Thrifty-White	NA	3	6
Marc's	NA	3	43
Standard	NA	3	4
Discount Drug Mart	3	3	14
Kinney	2	2	7
Begley	3	2	4
Drug Emporium	0	2	2
Dart	NA	2	2
K & B	NA	2	1
La Verdiere's	NA	2	3
A. D. Clark	0	1	5
Bill's	0	1	4
Phar-Mor	1	1	5

Source: Drug Store News *survey*

Chains try new formats in' 86

Continued from page 61

As Pay Less put its muscle behind Wonder World, less emphasis was placed on the Key format, the downsized drug store that had been designed as an answer to the penetration of promising smaller towns. The reason: Key stores are simply not the dollar generators that Pay Less, Value Giant and Wonder World stores are.

Thrifty Corp., on the other hand, continued to move ahead with its downsized Thrifty Jr. stores, and Dart Drug remained high on its own version of a smaller format aimed at urban Washington locations.

Hypermarket format

At the opposite end of the size scale was the hypermarket format that Wal-Mart and Cullum Cos. began planning as a joint venture.

The new format, to be called Wal-Mart Super Center, will be in the 150,000- to 200,000-sq.-ft. range and will use the strengths of both retail companies—Cullum in food and drug merchandising and Wal-Mart in discount general merchandise as well as drug.

The new hypermarket is slated to open at the end of this year, probably in Texas, though neither partner would confirm the location.

Deep discounting continued to hold its attraction, despite the shakeout currently going on in the industry. (*See story elsewhere in the section.*)

While supermarket retailers American Stores and Safeway have both backed away from their ventures into this highly volatile market, Albertson's decided to get its feet wet with its new Maxx store in Boise, Idaho, Albertson's hometown.

Deep discount thrust

The 55,000-sq.-ft. prototype features a full-line deep discount drug store, which accounts for 45% of the space, and a complete supermarket. Price cuts were characterized as very deep.

Vons Grocery Company was another food retailer that launched a new prototype featuring a complete deep discount drug store within a superstore format. The new prototype, called Vons Pavilions, has the added wrinkle of having very upscale specialty food departments.

For an unusual mixing of formats, the year's top prize went to Super America, the convenience store/gas station chain whose parent is Ashland Oil.

In Minneapolis, Super America opened a new 10,000-sq.-ft. C-store with gas station that featured a pharmacy. While independents have mixed gasoline and Rx in the past, this is believed to be the first for a chain. The company plans 10 to 12 outlets in the next three years.

Average chain drug store performance

Company	Store size	Sell space	Sales per store	Sales per sq. ft. of selling space
Duane Reade	5,000	5,000	$ 5.8M	$1,160
Marc's	25,000	18,000	14.7M	817
Medicine Shoppe	1,050	650	408,73[illegible]	629
Pharm-Escomptes	8,600	7,700	4.7M	610
F & M	25,000	17,500	8.9M	508
Rock Bottom	15,000	13,000	6.4M	492
Snyder	11,000	8,200	3.9M	476
Big V	6,500	5,000	2.2M	440
Longs	24,000	17,000	7.4M	435
CVS	7,150	5,720	1.9M	332
Genovese	12,000	11,000	3.4M	309
Wellby	6,500	5,200	1.6M	308
Arbor	11,000	9,500	2.9M	305
Walgreens	11,700	9,300	2.8M	301
Kent	5,000	4,500	1.2M	267
Thrift	9,500	7,800	1.9M	244
Kinney	8,000	7,000	1.7M	243
Perry	11,000	10,000	2.3M	230
Drug Fair of N.J.	20,000	19,000	4.3M	226
Fay's	14,000	12,500	2.6M	208
Pay 'n Save	24,900	20,418	4.0M	196
Big B	8,700	7,200	1.3M	181
Kerr	9,600	8,400	1.4M	167
Rite Aid	6,500	6,250	1.0M	160
Thrifty/White	NA	9,213	1.4M	152
Begley	8,000	7,500	1.1M	147
Rix Dunnington	6,000	5,000	657,895	132
Dart	25,000	25,000	3.2M	128
Standard	9,100	8,500	1.0M	118
Thrifty	19,000	19,000	2.0M	105

Source: Drug Store News *1987 chain drug survey*

Chains wheel 'n deal and market shares shift

The year's acquisitions

Company	Headquarters	Acquisition	Location of Stores
Rite Aid	Shiremanstown, Pa.	115 SupeRx stores 81 Gray stores 22 Drug Fair stores 9 Harris drug stores	Florida, Alabama, Georgia Florida Baltimore South Carolina
Walgreens	Deerfield, Ill.	66 Medi Mart stores	New York, New Jersey, New England
Gerald Wolken group	Phoenix	48 SupeRx stores	Phoenix, Alabama, Georgia
Eckerd	Clearwater, Fla.	31 Shoppers Drug Marts	Florida
Thrifty	Los Angeles	15 Drug Kings 13 Guild Drug stores 4 Guys drug stores	California California California
Arbor	Troy, Mich.	19 Sentry Drug stores	Michigan
Mays	Tulsa, Okla.	11 Eckerd Drug stores	Oklahoma
Perry	Pontiac, Mich.	7 Warehouse Way stores	Michigan
Medicare-Glaser	St. Louis	5 Gasen (SupeRx) drug stores	St. Louis
Total		**446 stores**	

Though not quite matching the blockbuster acquisition deals of previous years, 1986 activity nevertheless provided some interesting fireworks for market watchers.

The pace of acquisitions, in fact, was quite brisk compared to the leisurely tempo of the previous year, when relatively few blocks of stores of any magnitude changed hands.

Leading the way this past year was Rite Aid. The Shiremanstown, Pa.-based chain moved opportunistically to gather in two large groups of Florida stores, as well as smaller groups in Alabama, Georgia, South Carolina and Baltimore. Rite Aid also got another prize as part of one acquisition: SupeRx's 200,000-sq.-ft. distribution center in Melbourne, Fla.

Rite Aid got lucky in Florida because sizable blocks of stores from two major chains became available at the same time—a rare occurrence—and Rite Aid was ready with cash in hand to pick them up at a bargain price, said to be $110 million or about $500,000 a store.

The stores—106 SupeRx units and 81 Grays—were on the block because their parent companies, Kroger and Sherwin-Williams, were getting out of the drug store business to concentrate on their main sources of revenue—food and paint.

Rite Aid market presence

For Rite Aid, the Florida acquisition provided an immediate large market presence, a building block on which to base future growth in a state dominated by Eckerd and Walgreens.

Walgreens was another chain that moved opportunistically to grab an attractive chain in a region in which it had targeted future growth. The target chain was Medi Mart, and Walgreens pursued the prize avidly, finally acquiring its 66 stores from Stop & Shop, which had also decided to divest itself of its drug store business.

Walgreens has used the words "crawl, walk, run" to describe its approach to market expansion, but the Medi Mart acquisition allowed the chain to pass "crawl" and get right up to a brisk walking pace.

The divestiture of stores by Kroger also opened up an opportunity for Gerald Wolken, former president of The Cincinnati-based drug chain. Wolken had decided not to join the leveraged management buyout of the SupeRx and Hook drug store chains but grabbed at the chance to acquire 48 SupeRx stores, the bulk of them in the Phoenix market and a scattering of units in Alabama and Georgia.

Opportunity for Eckerd

For Eckerd, an opportunity came when Peoples Drug Stores gave up the battle in Florida and decided to put its 31 Shoppers Drug Mart stores on the market.

Eckerd leaped at the chance to purchase the stores. They offered the opportunity to add to the chain's dominant presence in Florida. The acquisition also helped to bolster Eckerd's image as aggressive and expansion-minded at a time when some observers were expecting the chain to sell off some assets in order to play down its leveraged buyout debt.

Chain stocks hot again after a mediocre 1986

1986 Chain drug stock performance

Company	1986 stock prices			'86% change	3/16/87 price	3/16/87 P/E
	High	Low	Last			
American Stores	$71.25	$51.63	$54.38	−12.3%	$69.00	18.2
Arbor	21.50	14.75	17.25	NA	20.50	22.8
Begley	23.50	16.25	17.00	+ 4.6	18.50	21.0
Big B	18.75	11.63	11.63	−25.0	13.38	21.9
Fay's	11.75	8.50	8.62	− 1.5	9.75	65.0
Genovese	16.63	10.38	11.75	+ 5.6	13.88	27.2
Longs	38.75	26.63	29.50	− 3.7	33.88	19.0
Medicare-Glaser	5.00	3.38	3.50	−22.2	4.25	NM
Medicine Shoppe	32.00	21.75	29.63	+23.5	35.25	33.3
Pay 'n Save	16.25	5.25	5.75	NA	8.13	NE
Perry Drug	20.88	12.00	12.25	−28.5	13.50	38.6
Rite Aid	35.50	24.25	29.50	+14.0	37.25	20.8
Walgreens	39.50	24.88	32.38	+15.1	37.38	23.2

NE Negative earnings
NM No meaningful figure

Source: Media General Financial Services

Chain drug stock performance was mixed in 1986, but since the start of the new year, the stocks have shown solid gains.

The improvement is the result of both the surge in stock prices in general and the realization by investors that there are solid values to be found in the chain drug stocks.

From the beginning of 1987 through the middle of March, the index of 13 chain drug stocks gained about 20%, as prices rose, almost without exception, in double-digit percentages.

Pay 'n Save (up 41% from Jan. 1 through March 16) led the list of gainers, followed by American Stores (+27%), Rite Aid (+26%) and Medicare-Glaser (+21%).

Also showing strong advances in the first two and a half months of the year were Arbor Drugs (+19%), Medicine Shoppe (+19%), Genovese (+18%), Walgreens (+15%), Big B (+15%) and Fay's (+13%).

In contrast to the across-the-board increases after the beginning of this year, there were more losers than gainers in 1986. For example, Perry's share price dropped 28.5% from Jan. 1 to the close of 1986, while Big B was down 25%, Medicare-Glaser 22.2% and American Stores 12.3%.

But in the midst of general decline, two particular companies stood out as strong gainers during 1986. Not coincidentally, the two chains were also the darlings of Wall Street because of their strong operating performance.

The share price of the first, Walgreens, rose 15% to $32.38 from Jan. 1 to Dec. 31, 1986, and kept on rising through the first part of the year, closing at $35.75 on March 27. Walgreens was the industry's stellar performer.

Not far behind was Rite Aid, whose stock price increased by 14% to $29.50 at the end of 1986. Rite Aid's price has also continued to rise through the first three months of the year, closing at $38.50 on March 27. That topped, by $3 a share, Rite Aid's high for all of 1986.

Longs, which has always been considered one of the industry's best managed companies, had a relatively flat year in 1986. Its stock price was down by 3.7% to $29.50 at year-end.

But net income increased strongly in the fourth quarter ended Jan. 29 and since the beginning of the year so has its stock price, which closed March 27 at $34.75, up 18% since Jan. 1.

Two new entries

The chain drug stock chart gained two new entries in 1986, Pay 'n Save and Arbor. Pay 'n Save, the Seattle-based super drug store chain, had originally been publicly owned, but had gone private via a leveraged management buyout. In 1986, it went public again through an equity offering in July.

In the second half of 1986, Pay 'n Save's share price went from a high of $16.25 down to $5.75 at year-end, as problems in its stores and distribution center walloped bottom-line performance. The chain lost almost $50 million in 1986.

But its stock price has begun to move up again, partly the result of improving operations and a small profit in the first quarter of 1987. Pay 'n Save stock stood at $7.75 on March 27, a gain of 35% since Jan. 1.

Deep discounting secures high-performance niche

1. ***Drug Emporium***	Worthington, Ohio	$\$425^{E}$	NA	112	NA
2. ***F & M***	Warren, Mich.	249	25	28	27
3. ***Rock Bottom***	Port Washington, N.Y.	140	12	22	0
4. ***Heartland*** (Supermarkets General)	N. Billercia, Mass.	113^{E}	NA	13	– 7
5. ***Marc's***	Cleveland	103	NA	7	40
6. ***Phar-Mor***	Youngstown, Ohio	89^{E}	NA	22	47
7. ***Howie's/Carnevale*** (Shoppers Drug Mart)	Toronto	81^{E}	NA	17	143
8. ***Freddy's*** (Melville Corp.)	Woonsocket, R.I.	68	61	12	70
9. ***Drug World*** (SupeRx)	Cincinnati	48^{E}	NA	12	– 25
10. ***Drug Palace*** (Rite Aid)	Shiremanstown, Pa.	47^{E}	NA	25	108
11. ***Cost Cutters*** (Community Distributors)	Somerville, N.J.	34^{E}	NA	8	NA
12. ***Pathmark*** (Supermarkets General)	Edison, N.J.	33^{E}	NA	9	50
13. ***Drug Castle*** (Brown)	Springfield, Ohio	30^{E}	NA	7	40
14. ***A. L. Price*** (Perry Drug)	Detroit	30^{E}	NA	8	60
15. ***Dot*** (Wal-Mart)	Bentonville, Ark.	28^{E}	NA	6	200
16. ***Wonder World*** (Pay Less NW)	Wilsonville, Ore.	28^{E}	NA	14	NA
17. ***Bud's*** (Peoples)	Alexandria, Va.	28^{E}	NA	9	200
18. ***Joel and Jerry's***	Tampa, Fla.	20^{E}	NA	7	NA
19. ***Jax's*** (Fisher Foods)	Cleveland	18^{E}	NA	2	0
20. ***Get It For Less*** (Revco)	Twinsburg, Ohio	16^{E}	NA	4	33
21. ***Total Plus*** (Dart)	Landover, Md.	16^{E}	NA	5	NA
22. ***Ike's*** (Malone & Hyde)	Memphis	16^{E}	NA	2	0
23. ***Cecille's***	Detroit	14^{E}	NA	1	0
24. ***Value Giant*** (Pay Less NW)	Wilsonville, Ore.	14^{E}	NA	2	– 33

Deep discounting—once considered just a fad—is now firmly entrenched in today's drug store retailing environment. There are an estimated 400 of these retailing powerhouses in operation, capturing between 3% and 4% of total drug store volume.

During 1986, the nation's deep discounters continued to instill fear in the competition. When these behemoths open in new markets, they continue to steal business away from traditional outlets. It is no surprise that many major chains now operate deep discount units of their own. In other cases, traditional operators have slashed prices on select sku's to beat the deep discounter at its own game.

A mature and well-managed low margin store can pump out annual sales as high as $10 million. It is the allure of that volume that has sent many chains and entrepreneurs scurrying to open deep discount units. In fact, there are approximately 32% more units this year than last.

Handful reach $10M sales

But in reality, says Gary Wilber of Columbus, Ohio-based Drug Emporium, only a handful of units actually reach the lofty $10 million sales mark.

It is estimated that fewer than 25 stores—including several Drug Emporiums and Marc's and Shulmans—generate over $10 million. The true average is closer to $5 million. However, that is well above the $2 million needed to break even and higher than the average annual volume in a drug store. A store needs two to three years to mature.

But procuring merchandise is a precarious situation for a deep discount store. It is a tricky balance and one that requires buying to hover around 80% on deal. Location, too, is critical to a deep discounter's success. Without traffic, the concept dies.

Year of shakeout

In fact, while 1986 was a year for many chains to enter the fray, it was also a year for a shakeout. Safeway abandoned its Drugs For Less because of losses in the "several multiples of seven figures," said a Drugs for Less source. All 13 of the stores, which averaged 25,000 to 30,000 sq. ft., were put up for sale. The stores needed to hit $85,000 a week in sales to break even; but the average DFL was only producing $60,000.

Warehouse Way, a seven-store chain in the Detroit area once owned by Chatham Supermarkets, also fell prey to anemic results. Perry Drug scooped up the sites during 1986. Although Perry operates eight deep discount stores, these units will become traditional Perry outlets.

Despite the defeats, there are operators expanding the concept. The most aggressive is indeed Drug Emporium. However, Drug Emporium is growing more via franchise this year than last year, according to Wilber. Currently, Drug Emporium operates 36 company-owned units, 18 joint ventures and 66 franchise units. Of the 30 to 40 new units on the drawing board, about 70% will be franchised operations.

Deals and locations

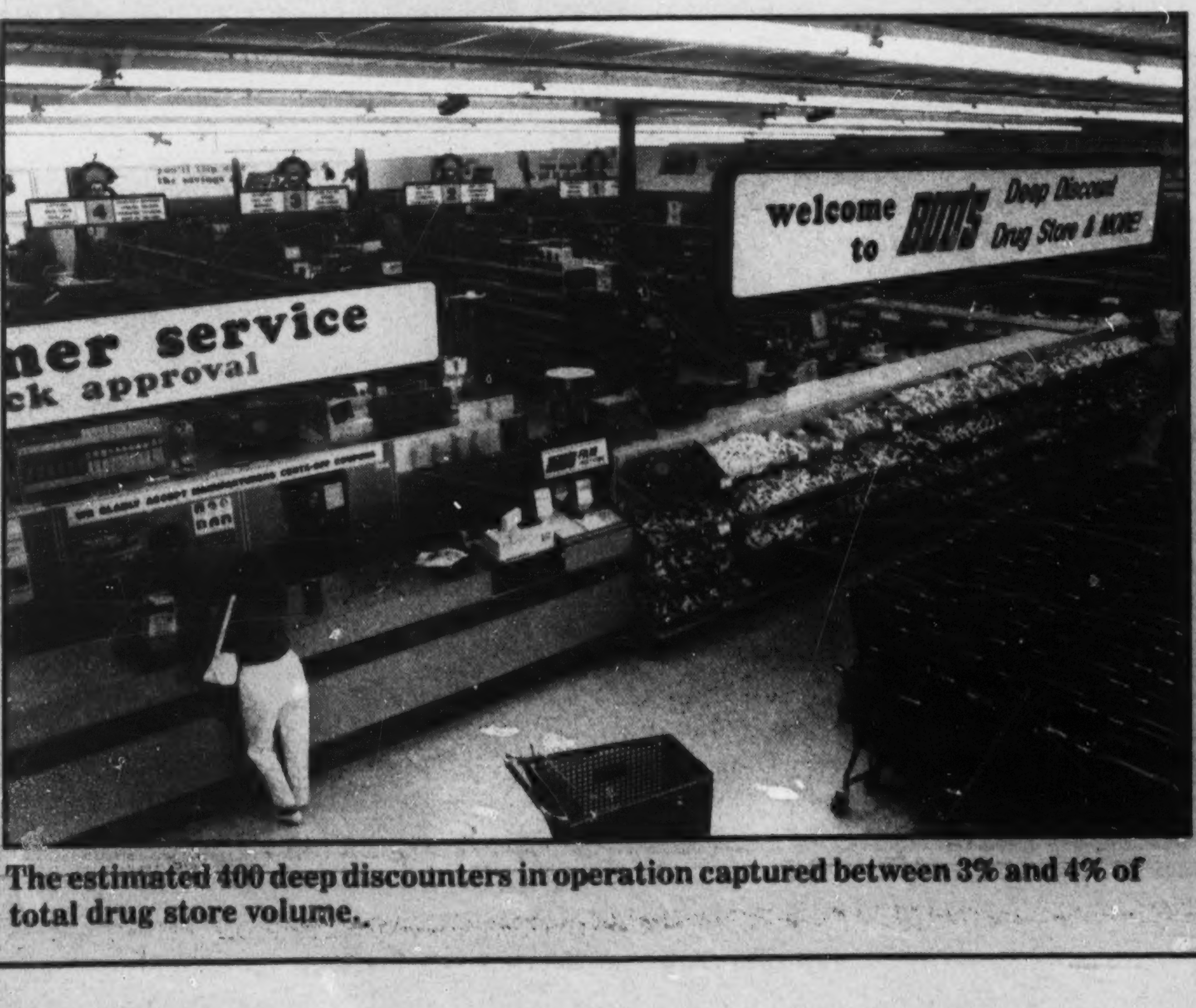
"It's funny," said Wilber, "people look for a strategy in this. But it all comes down to what deals and locations are right at the right time."

During 1986, Drug Emporium continued its onslaught into the Philadelphia market where it now has 14 units, with two planned for a summer debut.

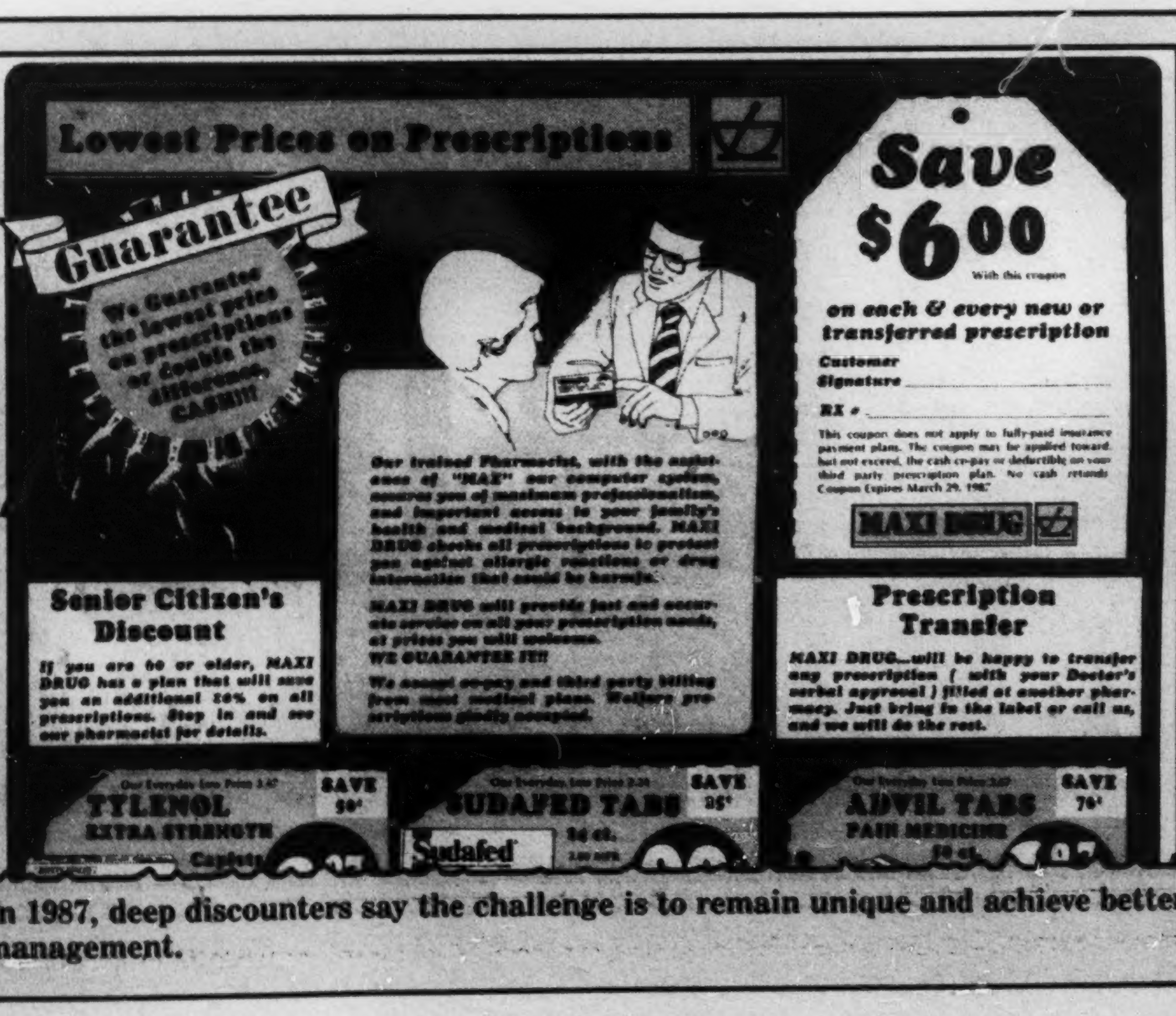
Drug Emporium also shook up Atlanta last year with the opening of two more units, bringing the total to 16. Denver, Baton Rouge, La., and Richmond, Ky., were other growth markets for Drug Emporium last year.

The chain has become such an important retailer that suppliers seek it out when "shopping" a market. Says an executive from one large cosmetics firm,

Continued on page 82



The estimated 400 deep discounters in operation captured between 3% and 4% of total drug store volume.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In 1987, deep discounters say the challenge is to remain unique and achieve better management.

1987 drug chains'

Total corporate sales
(add 000,000)

Company	FY ends	'86	'85	'84	'83	'82
Walgreens	8/31/86	$3,661	$3,162	$2,745	$2,360	$2,039
Revco	5/31/86	2,743	2,396	2,228	1,792	1,554
Rite Aid	2/28/87	1,757	1,564	1,360	1,223	1,049
Longs	1/29/87	1,635	1,480	1,376	1,214	1,223
Perry	10/31/86	648	552	373	285	244
Fay's	1/31/87	452	445	367	312	270
Genovese	1/30/87	271	233	220	193	158
Big B	1/31/87	210	175	148	117	87
Arbor	7/31/86	151	120	N.A.	N.A.	N.A.
Medicare-Glaser	3/31/86	86	82	77	69	57
Begley	3/31/36	70	66	61	56	49

Drug store units

Company	'86	'85	'84	'83	'82
Revco	2,031	1,898	1,778	1,661	1,593
Rite-Aid	1,586	1,372	1,275	1,148	1,055
Walgreens	1,273	1,095	1,002	941	833
Longs	222	208	191	178	173
Perry	203	191	146	122	125
Fay's	155	143	125	102	92
Big B	150	126	114	99	83
Medicare-Glaser	86	88	101	101	89
Genovese	79	75	77	72	66
Arbor	52	43	N.A.	N.A.	N.A.
Begley	40	42	45	43	47

Sales per average store
(add 000)

Company	'86	'85	'84	'83	'82
Longs	$7,367	$7,155	$7,203	$6,823	$6,493
Genovese	3,427	3,107	2,861	2,691	2,404
Fay's	2,916	3,112	2,934	3,062	2,938
Arbor	2,913	2,802	N.A.	N.A.	N.A.
Walgreens	2,769	2,765	2,609	2,379	2,179
Perry	2,399	2,007	1,983	2,012	1,954
Revco	1,351	1,262	1,253	1,079	976
Begley	1,321	1,279	1,022	1,010	802
Big B	1,288	1,190	1,299	1,182	1,053
Rite Aid	1,108	1,057	1,017	1,066	938
Medicare-Glaser	920	909	760	690	651

Net-to-sales ratio

Company	'86	'85	'84	'83	'82
Rite Aid	4.4 %	4.3%	4.8%	5.1%	4.8%
Arbor	3.5	3.0	N.A.	N.A.	N.A.
Walgreens	2.8	3.0	3.1	3.0	2.7
Longs	2.4	2.5	2.9	3.0	2.8
Big B	2.1	2.3	2.9	3.0	2.9
Revco	2.1	1.6	4.2	3.7	3.2
Perry	0.9	1.8	2.1	1.6	1.2
Fay's	0.9	0.6	2.4	2.6	2.0
Begley	0.9	1.4	1.2	1.4	0.5
Genovese	0.8	1.2	1.9	2.0	1.7
Medicare-Glaser	*	0.2	3.8	1.4	0.1

*Reported net loss in fiscal 1986

financial scorecard

HOME CENTER
PH C. CENTER

Net income
(add 000)

Company	'86	'85	'84	'83	'82
Walgreens	$103,137	$94,169	$85,446	$69,789	$56,064
Rite Aid	77,984	62,547	69,936	62,167	49,885
Revco	56,934	38,906	93,411	66,470	49,638
Longs	38,594	37,718	40,094	36,387	30,890
Perry	5,878	9,575	7,650	4,545	2,868
Arbor*	5,319	3,646	N.A	N.A.	N.A.
Big B	4,470	4,039	4,442	3,471	2,541
Fay's	4,098	2,787	8,679	8,103	5,479
Genovese	2,035	2,929	4,137	3,856	2,646
Begley	701	695	733	807	229
Medicare-Glaser	**	161	1,104	970	76

*Pro forma
**Net loss for FY 86

Gross margin %

Company	'86	'85	'84	'83	'82
Begley	37.9%	38.0%	33.9%	33.4%	31.0%
Medicare-Glaser	33.4	34.1	34.2	33.1	33.2
Perry	31.1	31.7	31.1	29.9	29.8
Walgreens	30.3	30.7	30.7	30.6	30.5
Arbor	29.2	28.3	N.A.	N.A.	N.A.
Big B	29.7	29.2	29.3	29.8	29.6
Genovese	29.1	28.9	29.7	29.9	29.9
Rite Aid	28.6	28.7	29.3	28.2	27.1
Revco	26.3	25.1	28.1	27.4	27.0
Fay's	26.8	23.7	25.5	25.6	24.9
Longs	24.1	24.2	24.0	24.6	24.1

Expense Ratio*

Company	'86	'85	'84	'83	'82
Longs	19.5%	19.3%	—	—	—
Rite Aid	19.7	19.5	17.5%	19.9%	16.2%
Fay's	23.6	20.8	20.2	19.5	19.4
Revco	21.7	21.7	19.1	19.0	19.6
Arbor	22.8	22.7	N.A.	N.A.	N.A.
Walgreens	25.0	24.2	24.1	24.4	25.1
Big B	24.3	24.2	23.2	23.7	24.1
Perry	28.2	27.8	26.2	25.9	26.1
Genovese	27.5	28.1	24.7	25.0	25.3
Medicare-Glaser	33.6	32.9	28.9	28.3	30.1
Begley	49.6	47.2	44.8	42.7	37.8

*Excludes depreciation and amortization costs

Return on investment %

Company	'86	'85	'84	'83	'82
Arbor	24.4%	38.9%	N.A.	N.A.	N.A.
Walgreens	19.9	21.0	22.3	21.4	18.7
Rite Aid	19.6	16.6	20.6	21.3	19.1
Longs	13.3	13.5	—	—	—
Big B	12.9	12.5	15.9	14.6	11.5
Revco	12.5	8.6	22.7	20.2	17.4
Genovese	8.1	12.7	19.3	21.3	16.1
Perry	7.4	13.3	12.7	11.5	11.2
Fay's	6.8	4.6	15.6	20.8	23.4
Begley	6.8	7.1	7.5	8.6	2.5
Medicare-Glaser	*	**	27.9	21.6	1.8

*Reported net loss for fiscal year
**Less than 1%

Combos accelerate invasion of drug chain turf

It was a dynamic year for the combo format, with some of the best and most innovative combination stores making splashy debuts.

Combos, defined by A. C. Nielsen as stores racking up at least $12 million per year in stores exceeding 30,000 sq. ft., now represent 7% of the total supermarket universe and contribute a hefty portion of total sales. Combos produce H&BA volume two times that of a discount store or drug store, according to Nielsen data. Combos sell twice as many vitamins as even a strong chain drug unit.

It is not surprising that some of the nation's most aggressive operators have accelerated the opening of combination stores. And that brings mixed blessings for drug store operators. For the drug operations that have branched into combos, the payoff has been higher traffic brought about by the presence of food. But for most drug chains, the onslaught of combination store competition has eroded their business.

Duplicates mix

That is because combination units now house a mix almost duplicating that of a drug store. With these units devoting at least 25% of available space to H&BA and general merchandise, the combination store can now go broad and deep with its assortments.

Recent Nielsen numbers actually show combos stocking more sku's than a drug operation. In the dentifrice classification, for instance, the average number of sku's in a combo is 194, compared with only 90 at a chain outlet.

Cincinnati-based Kroger is so enamored with the combination concept that it recently shed its Hook and SupeRx drug store divisions to concentrate solely on combos.

There are currently 491 combos under the Kroger banner, and all new stores will be combos, according to David Schwartz, vp-grocery, drug and general merchandise. Kroger devotes a whopping 1,250 linear feet out of 2,688 available feet to H&BA and general merchandise in a typical combo, or just under half the total space.

"Our drug/general merchandise per cent to total is now greater than our produce, deli and bakery departments combined," said Schwartz. "And as a result, we've grown total store gross. It is no wonder it is the core of our business."

Blend of categories

Instead of using the traditional approach of domiciling H&BA on one side of the store and food on the other, Kroger integrates the categories. H&BA and cosmetics are found near the front of the store, set off by a full-service fragrance bar that rivals any chain drug operation.

Kroger is quick to jump onto new items. For example, a recent store visit found Promega fish oil in stock, Clarion color cosmetics and the new Secret Wide Solid.

"We try to be the first in the marketplace with all available items because our statistics tell us 28% of sales in H&BA are generated by new products," Schwartz said.

Pharmacy is also integral to the mix at Kroger combos. Located directly across from the cosmetics bullpen, the pharmacy is considered paramount in building H&BA volume.

"We continue to develop the pharmacists as on-site salesmen. Industry numbers show 97% of pharmacist recommendations result in sales," said Schwartz.

Other combination operators seem to agree. More than 4,000 supers now sport pharmacies, and 41% of new stores will have Rx counters, according to Food Marketing Institute research.

The pharmacy is extremely important in the new Vons Pavilions format, a new look for Vons that many consider last year's most dramatic new store.

Supermarket chains with pharmacies

Company headquarters	Total stores	No. of Stores with Rx depts.	% of total Stores with Rx depts.
1. **Kroger**[A], Cincinnati	1,273	543	43%
2. **Safeway**, Oakland, Calif.	1,910	478	25
3. **American Stores**, Salt Lake City	1,498	138	9
4. **Albertson's**, Boise, Idaho	453	166	37
5. **Supermarkets General food stores**[B], Woodbridge, N.J.	200	127	64
6. **Lucky Stores**, Dublin, Calif.	579	90	16
7. **Smiths Management**, Salt Lake City	93	88	95
8. **Giant Food**[C], Landover, Md.	140	81	58
9. **Shop Rite (Wakefern Foods)**, Elizabeth, N.J.	176	73	41
10. **H.E. Butt**, Corpus Christi, Tex.	150	70	47
11. **Raley's**, Sacramento, Calif.	50	50	100
12. **Tom Thumb/Page (Cullum)**, Dallas	70	47	67
13. **Furr's**, Lubbock, Tex.	126	45	36
14. **Vons**, El Monte, Calif.	191	44	23
15. **Giant Open Air**, Norfolk, Va.	65	39	60
16. **Farm Fresh**, Norfolk, Va.	65	39	60
17. **Randall's**, Houston	35	31	89
18. **Wegman's**, Rochester, N.Y.	39	30	77
19. **Grand Union**[D], Elmwood Park, N.J.	368	28	8
20. **Smitty's Super Valu**, Phoenix, Ariz.	22	18	82
21. **Stop & Shop**, Quincy, Mass.	113	17	15
22. **Erickson's Foods**, Hudson, Wis.	15	15	100
23. **Carrs Quality Centers**, Anchorage, Ala.	13	13	100
24. **Dahl's Food Markets**, Des Moines, Iowa	13	13	100
25. **Bruno's**, Birmingham, Ala.	95	11	12
26. **A&P Supermarkets**[E], Montvale, N.J.	1,002	10	1
27. **Foodway**, Fayette, Ala.	27	9	33
28. **Dierberg**, Chesterfield, Mo.	10	5	50
29. **Big B**, Birmingham, Ala.	5	5	100
30. **Randall's**, Mitchell, S.D.	30	4	13
31. **Sentry Markets**[F], Waukesha, Wis.	88	2	2
32. **Sack 'n Save (Brookshire's)**, Coppel, Tex.	9	3	33
33. **Smitty's**, Springfield, Mo.	3	2	67
34. **Roundy's**, Pewaukee, Wis.	200	1	1

[A] Includes 1,035 Kroger stores and 385 with pharmacies, and 241 Dillon stores with 158 pharmacies.
[B] Supermarkets General owns Pathmark Foods and Purity Supreme.
[C] Giant includes one freestanding drug store.
[D] Includes 25 Grand Unions and 3 Big Stars with pharmacies.
[E] Includes 7 Family Marts and one Kohl's. Does not include 11 Canadian stores with pharmacies.
[F] Does not include 2 freestanding drug stores.

Source: Drug Store News *survey*

Vons Pavilions are 50,000-sq.-ft. to 70,000-sq.-ft. units selling everything from sausages made on the premises to wine selected by an expert. The chain has always been a food powerhouse in its Southern California operating market, but it needed a vehicle to net it better H&BA volume. The Pavilions, which carry more than 2,300 H&BA sku's plus a pharmacy, became that vehicle.

Items typically carried in drug outlets are housed to the right of the entrance, just in front of the pharmacy. The H&BA department is comprised of nine gondola runs.

A unique merchandising strategy has been adopted: Deal merchandise is given the two center shelves on the gondola. Floor stands are taboo.

Vons draws a definite line between nonedibles and food items. Even paper goods such as diapers are housed near H&BA, creating the feel of a very separate drug store environment.

"We try to use the pharmacy as the anchor and flow OTC and toiletries from there. We keep the perimeter for cosmetics, which are more often purchased on impulse," explained Tony Fanticola, vp-general merchandise and H&BA.

Enter The Giant

But Vons was not alone in its quest to debut a strikingly different store last year. Archrival Ralph's unleashed The Giant stores. But Ralph's eschewed the traditional approach to combination retailing. At The Giant, the food to nonfood ratio is 70/30 instead of 60/40. Instead, there is a Thrifty Jr. located in an arcade area that features a pharmacy.

"We feel the Thrifty Jr., which has a smaller assortment, will complement our store. We feel it will serve shoppers who want to get H&BAs on an in-and-out-of-the-store basis," explained Al Maraska, executive vp of the chain. All told, Ralph's plans to open 14 The Giant units.

Classic combo

The West Coast remains a market heavily populated by the nation's best combination units. One of the best examples of a classic combo operation is Raley's, based in Sacramento, Calif. The chain operates 60,000-sq.-ft. units with a 50/50 split between drug and grocery. Authority is divided in the stores between co-equal drug and grocery managers. H&BA items account for 27%-30% of annual volume. The department includes some 10,000 sku's.

"Our philosophy is that you should be able to close your eyes and stand in the middle of the store. When you open them, you should feel like you're in a Longs Drug Store, not a supermarket," explained Gary Skelley, director of merchandising.

Another major combination operator is Dallas-based Tom Thumb/Page. During 1986, the retailer announced plans to open a joint venture hybrid store in conjunction with Wal-Mart. It will be a hypermarket-style operation.

Chains push on with DC plans despite glitches

The importance of operating a well-managed warehouse or distribution center became strikingly apparent last year.

Such chains as Genovese and Peoples straightened out kinks in new DCs to improve merchandising efforts.

And it was also a year when several large chains were chopped into smaller networks, leaving many industry observers curious about the future of massive distribution centers for the emerging streamlined operations. Some wholesalers, in fact, expect to pick up business from the breakup of such chains as Gray Drug Fair, Hook and SupeRx.

Despite those rumblings, most chains continue to improve their facilities. The goal is to move as much merchandise through the warehouse as possible. The leaders such as Walgreens, Rite Aid and CVS push upward of 80%.

The obvious benefit to consolidating, retailers say, is that they can have a better handle on merchandise. Some, like Dart, even price mark at the DC. About 85% of Dart's merchandise is marked before arriving at the store.

Peoples opened a $24 million Fredericksburg, Va., warehouse late in 1985, which limped along through much of 1986. Persistent problems at the center—a three-level facility able to move 270 cases per minute—led to out-of-stocks in many of Peoples stores.

That's alleviated now, said Purdy Crawford, parent Imasco Ltd.'s president and ceo. He noted the center initially operated at 10% of capacity, but that figure is now closer to 60% and should be up around a goal of 80% to 90% within a few months, Crawford explained in a February interview with *Drug Store News*.

Peoples was not alone in its struggle. Genovese Drug's 155,000-sq.-ft. center hurt its numbers initially. But now, says Don Gross, vp-marketing, the facility is starting to pay off in more economical volume buys and faster turnaround time. The chain's nonstore door delivery is up from 40% when it opened to 62%. According to Gross, it will hit 75% soon, and the chain will probably activate an option to add 100,000 sq. ft. more next year.

Plan new DCs

Undaunted by problems at other operations, several chains revealed plans for new warehouses. Rite Aid will debut a facility in Winnsboro, S.C., later this year. Rite Aid scored a major coup recently with its purchase of 187 SupeRx and Gray Drug stores from Kroger and Sherwin-Williams. As part of that deal, Rite Aid grabbed—for a bare bones price—SupeRx's 200,000-sq.-ft. Melbourne, Fla., warehouse.

With that location and the new site in South Carolina under its belt, Rite Aid will be poised to add stores at a rapid pace in the South. The chain will use the 200- to 300-store-capacity warehouse to serve Florida and its soon-to-be-opened Winnsboro site will serve other growing southeastern markets.

CVS, which wants to extend its reach in Southern California, will open a new center some time in 1987. The chain has 37 stores in the market and has had to rely on long-haul shipping and local sources—a strategy the chain is not fond of normally, since it moves almost 90% of its items in the East via its own network.

CVS' newest warehouse

The new center will range from 180,000 sq. ft. to 200,000 sq. ft. It will be in Rancho Cucamonga, Calif., a town about 50 miles east of Los Angeles.

Brooks Drug, formerly Adams, recently opened a 75,000-sq.-ft. distribution center in Mansfield, Mass. The new center is used for promotional merchandise and as a supplement to a 410,000-sq.-ft. facility in Pawtucket, R.I.

Several other operations currently have warehouse stores capable of serving more units. Dart's huge 600,000-sq.-ft. site can accommodate 40 to 50 more stores. Arbor's 60,000-sq.-ft. warehouse is reaching its saturation; a 150,000-sq.-ft. new facility is scheduled to debut in two to three years.

Perry Drug, which has three facilities totaling 762,000 sq. ft. recently shifted gears to concentrate on its Auto Works division with the opening of a 312,000-sq.-ft., $5 million warehouse for Auto Works merchandise.

Combines activities

The debut of this center allowed Auto Works to bring warehousing and distribution activities together. By removing some Auto Works merchandise from an existing warehouse in Pontiac, Mich., Perry now nets more space for drug chain items, too.

There are currently 226 Auto Works and the center has the capacity to service 500 stores—meaning the center can accommodate a doubling in size of Auto Works.

New warehouses continue to employ electronic wizardry to make them productive. Perry's Auto Works and its new 400,000-sq.-ft. center have state-of-the-art technology such as automated flow racks with conveyors and automatic routing. The Auto Works center even sports automated picking and sortation systems.

The Perry facility can process 105 cases per minute, one of the fastest rates within the chain drug industry.

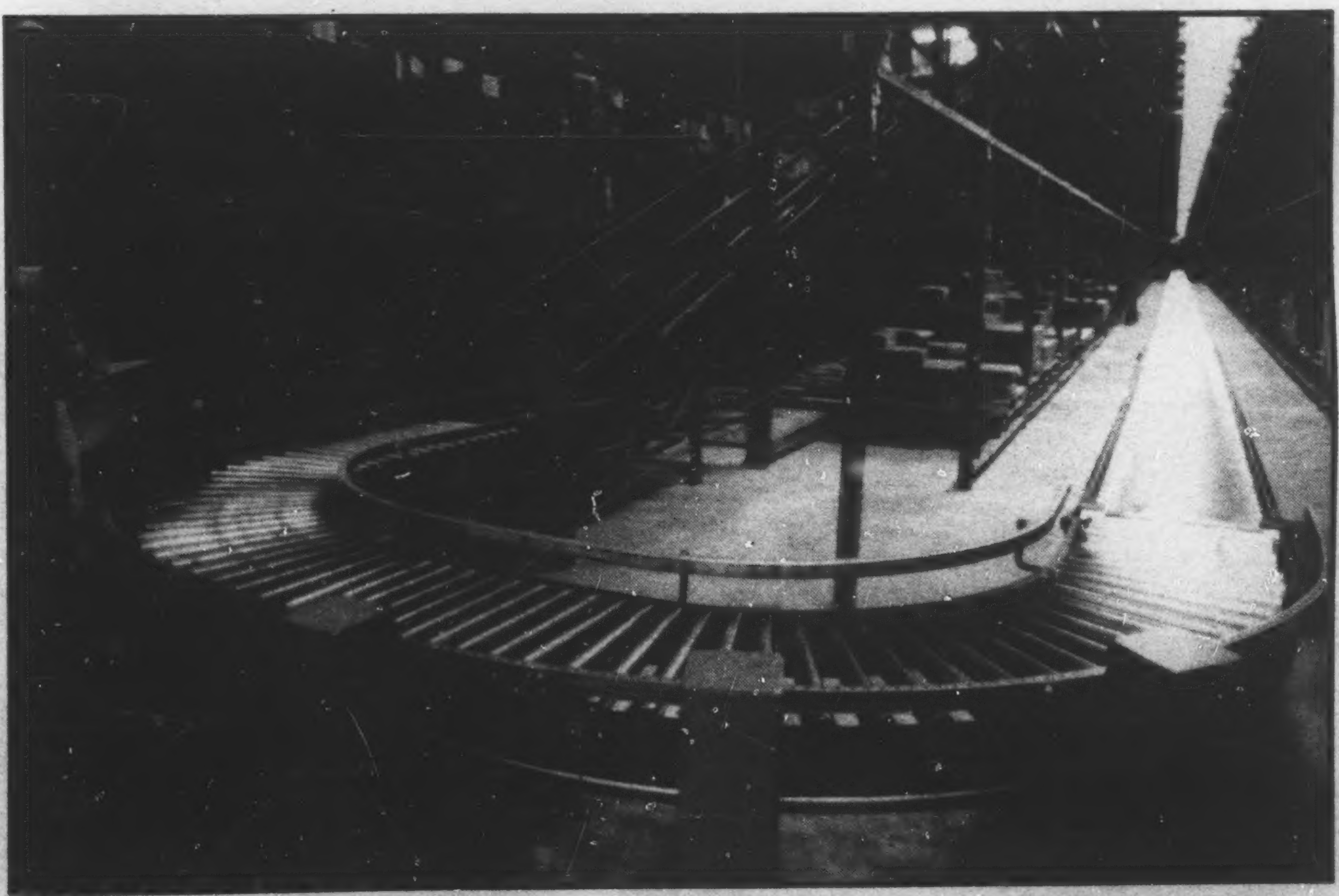
And few operations are still as automated as Walgreens' Orlando, Fla., and Windsor, Canada, facilities with automatic picking and laser sorting.

At least one chain—Canada's Boots—shuttered a warehouse last year in order to concentrate on its business more effectively. Boots will now be serviced 70% by National Drug and the rest by direct store delivery.

Top drug chains in warehousing

	1986			1987		
Company	**No. of DC's**	**Total sq. ft.**	**% handled thru DC's**	**No of DC's**	**Total sq. ft.**	**% handled thru DC's**
Eckerd	7	2.8M	NA	7	2.8M	NA
Revco	9	2.6M	NA	9	2.8M	90%
Walgreens	6	1.8M	80%	6	2.3M	70
Peoples	8	1.6M	70	7	1.6M	80
Thrifty	3	1.2M	85	3	1.3M	85
Rite Aid	4	1.1M	85	4	1.1M	89
Osco	NA	NA	NA	2	1.0M	NA
Pay Less NW	NA	NA	NA	2	1.0M	70
CVS	2	1.0M	84	2	NA	85
Perry	3	513,000	56	3	762,000	56
Pay 'n Save	2	540,000	NA	4	753,000	15
Fay's	1	280,000	75	2	700,000	75
Thrift	3	781,000	NA	4	690,000	90
Dart	1	500,000	NA	1	600,000	60
Wellby	NA	NA	NA	2	600,000	NA
K & B	2	485,000	85	2	480,000	85
Snyder	1	363,000	NA	1	360,000	85
Brooks	NA	NA	NA	1	350,000	90
Big B	1	240,000	70	1	240,000	70
Rock Bottom	1	175,000	NA	1	200,000	85
Pharm-Escomptes	NA	NA	NA	1	180,000	58
Genovese	1	155,000	62	1	155,000	60
Harco	NA	NA	NA	1	135,000	60
Duane Reade	1	130,000	90	1	130,000	80
Kerr	1	120,000	NA	1	128,000	60
Kinney	1	138,000	95	1	118,000	95
Standard	1	100,000	NA	1	116,000	79
Medicine Shoppe	NA	NA	NA	3	100,000	NA
Taylor	1	80,000	78	1	100,000	NA
Discount Drug Mart	NA	NA	NA	1	91,000	60
Begley	NA	NA	NA	1	90,000	50
La Verdiere's	1	100,000	NA	1	90,000	NA
Drug Fair of N.J.	NA	NA	NA	1	81,000	NA
F & M	NA	NA	NA	1	77,000	NA
Rix Dunnington	NA	NA	NA	2	75,000	50
Medicare-Glaser	NA	NA	NA	1	75,000	70
Arbor	NA	NA	NA	1	60,000	70
Big V	NA	NA	NA	1	60,000	30
Medi-Save	NA	NA	NA	1	20,000	80
Bill's	NA	NA	NA	1	NA	30

Source: Drug Store News 1987 chain drug survey



Several chains encountered difficulties in their distribution systems last year, but the benefits of central purchasing and delivery continue to drive retailers to expansion and automation of their facilities.

[redacted]

Explosion of computer capability fires up chains

Now that pharmacy computer systems are in place in virtually every major drug chain, retailers can start concentrating on the front end of the store.

Although drug outlets have long lagged behind supermarkets and even discounters in the race toward sophisticated product tracking at point of sale, several chains have made it clear they are poised to play some catch-up ball.

Rite Aid, Revco, Perry and Walgreens lead the drug store charge. Like other retailers installing point-of-sale scanning systems, drug chains are often as interested in expediting checkouts as capturing data.

"Right now, we're looking at our checkout counters to find ways to serve customers fast," explains Walgreens director of facilities planning Tom Bergseth.

Walgreens—one of the pacesetters in Rx computers—plans to roll out front-end scanning equipment in a three-year period starting next year. Scanning will be part of the chain's aggressive WIN (Walgreens Information Network) effort which assists in payrolls, inventory management and other functions.

By the early 1990's, all stores, offices and distribution centers will be linked by the system.

Better grasp of business

Although the desire to zip customers through checkouts is a factor, most industry observers say the real reason chains are adopting scanners is to get a better grasp of the business.

Stores can only be so profitable, and chains can only expand so far. "The challenge," says Fay's Drug chairman Henry Panasci Jr., "is to make our stores more profitable." Fay's is also researching scanning systems.

Several chains are already reaping the benefits from such efforts. Rite Aid uses scanners in more than 250 stores. It has allowed the chain to not only glean movement data, but the advent of scanners has reduced labor costs from price marking.

Many drug store retailers say they have been waiting for questions about scanners to be answered before entering the fray. Many wondered whether handheld scanners or slot versions were right for drug operations. Revco, which postponed its scanning test for this and other reasons, finally debuted a scanning system in January 1987. Revco just recently completed the installation of scanning upgradable electronic cash registers in all of its 2,050 units.

Revco plans 10 systems

According to a Revco spokesperson, the Twinsburg, Ohio-based operation plans to have 10 systems in place by the end of its fiscal year.

Although Revco has put a vote in for slot scanners, it still is testing the various hardware systems. The current test is with both AT&T and IBM computers for hardware and two software offerings.

Revco is using the test to determine the breakeven times and return on investment. According to vp Scott Leeseberg, the system pays for itself quickly if inventories are put in line and a few turns are picked up.

Like others, especially discounters and food store operators, scan data will be used, at some point, to help determine the mix.

Determines shelf allocations

Troy, Mich.-based K mart is using scan data to determine shelf allocations. For example, although Crest toothpaste outsells Aqua Fresh in most stores, scan information has found several units have a reversed trend and the shelves are set accordingly.

The increasing use of scan data will also make it harder than ever to justify sluggish turning merchandise. It is also giving buyers, not vendors, the favorable position when it comes to movement information.

Other leading drug firms tinkering with scanning include Perry, which is learning from its Auto Works division which has scanners, Peoples and its sister company Shoppers Drug Mart.

Shoppers has concrete results of scanning. By eliminating slow turners, one SDM store cleared 24 running feet of merchandising feet, which was turned over to a 16-ft. bar soap area and an 8-ft. trial and travel section. These two departments added $75,000 to the store's annual volume.

It was only in the last few years that scanning could become a reality because more and more of the typical drug store sku's began to carry the Universal Product Code (UPC). Prior to this, retailers would have to stamp it on in the warehouse—a costly action.

Leeseberg at Revco estimates about 74% of all Revco items are coded now.

With computerization, drug chains will also be able to start using Direct Product Profitability (DPP) more easily. Eckerd is already putting a DPP model together.

Scanning is not the only technological movement by drug operations. Thrifty, for example, has a five-year, $60 million plan to form a comprehensive in-store computer system that will integrate and automate store operations. Activities will include POS data capture, automatic store ordering based on inventory management, automated labor scheduling and energy management.

And, perhaps one of the most intriguing uses of computers is in warehouses such as Zahn and Walgreens computerized picking arms.

Computerization is not cheap. It can cost at least $20,000 per store to install POS systems. Yet many chains feel the time is right to use these systems to pump out more productivity per store.

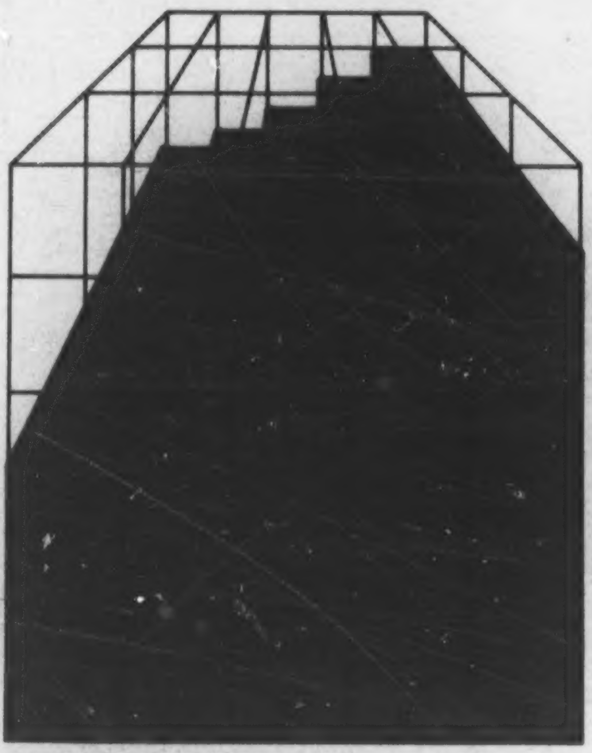
save up to 40% and more
photo finishin
double print
2 for 25
6
7
7
2:27

Chains are increasing commitment to POS systems, and more are testing scanning.

Pharmacy computers in chain drug stores

	1986		1987	
Company	No. of stores	% of total	No. of stores	% of total
Eckerd	NA	NA	1,500	92
Walgreens	1,175	100	1,217	96
Rite Aid	750	60	825	52
Revco	766	38	NA	NA
Thrifty	NA	NA	464	78
Thrift	NA	NA	371	95
Medicine Shoppe	NA	NA	300	47
CVS	NA	NA	250	40
Longs	208	100	222	100
Perry	191	100	210	100
Pay Less NW	NA	NA	200	91
Shoppers Drug Mart	183	42	195	35
Fay's	143	100	153	100
Big B	126	100	153	100
K & B	72	50	120	82
Medicare-Glaser	86	98	85	91
Pharm-Escomptes	NA	NA	85	96
Genovese	80	100	79	100
Pay 'n Save	NA	NA	73	52
Kerr	62	100	70	100
Big V	NA	NA	60	71
Snyder	NA	NA	55	100
Arbor	NA	NA	51	100
Taylor	47	100	45	100
Harco	55	83	45	75
Standard	NA	NA	45	67
Supermarkets General	NA	NA	45	69
Begley	43	100	43	88
Medi-Save	NA	NA	40	27
Rix Dunnington	NA	NA	32	76
Drug Emporium	NA	NA	30	25
Kinney	NA	NA	30	100
Thrifty/White	NA	NA	22	42
Discount Drug Mart	NA	NA	22	100
Phar-Mor	21	100	21	95
La Verdiere's	NA	NA	21	35
Drug Fair of N.J.	NA	NA	21	100
Kent	NA	NA	13	18
Pic 'n Save	NA	NA	7	17
Duane Reade	NA	NA	6	19
Bill's	NA	NA	2	8

Source: Drug Store News 1987 chain drug survey

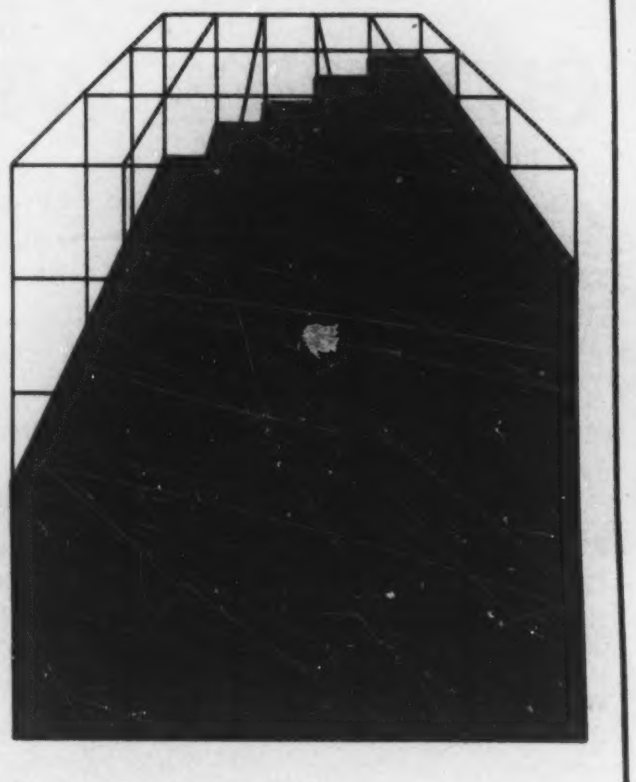


Walgreens drug store sales stride upward

(in billions of dollars)

Source: Company reports
Fiscal year ended Aug. 31, 1986

Walgreens' merchandise mix will be evaluated carefully this year. "We're going to study every single item we carry for its sales potential and return on investment," Charles R. Walgreen III said.



Walgreens net earnings climb

(in millions of dollars)

Source: Company reports
Fiscal year ended Aug. 31, 1986

Walgreens sets '86 expansion record

Chain opens or acquires 193 stores to solidify No. 1 spot

Fiscal 1986 was a benchmark for Walgreen Co., in which the nation's premier drug chain solidified its claim to the No. 1 spot in chain drug retailing.

In a time of relative quiescence among most chain drug retailers, Walgreens made big strides in sales, earnings, store modernization and expansion, market share and other key areas.

Walgreens bucked a conservative expansion climate last year, buying up nearly 100 Medi Mart and Ribordy drug stores and opening another 102 new stores. In the process, the chain made its long-awaited entry into the underchained New England marketplace and strengthened its presence in dozens of other areas.

'Greatest expansion year'

"Last year was the greatest expansion year in Walgreen history, [with] 193 stores either opened or acquired," noted chairman Charles R. Walgreen III. "This was a very well-researched effort to increase market share in our key markets and also take advantage of an exceptional acquisition opportunity. We increased our market share in 32 of our top markets and positioned ourselves for profitable growth in the years ahead."

Walgreens' 1,300 high-volume drug stores are positioned to give the chain the kind of market penetration unmatched in the chain drug industry. The chain is now market leader in eight of the top 50 markets and No. 2 or 3 in 11 others. With the purchase last June of Boston-based Medi Mart's 66 stores, Walgreens broke into New England, while the Ribordy acquisition last September essentially doubled its northern Indiana store base.

Northeast DC by 1990

In all, the chain added units in 17 of its top 20 markets, including big gains in Chicago, St. Louis, San Francisco, Tampa and Phoenix. Those cities, as well as Minneapolis, Cincinnati and other Florida markets, are being targeted for further expansion this year. Walgreen also predicts the chain may add as many as 150 more units in the Northeast by the end of the decade—enough to require the installation of a distribution center in that area of the country by 1990.

Walgreens' chairman has predicted that the chain's blistering expansion pace will continue at the rate of 100 new stores and 20-30 acquired units a year "for the foreseeable future." In addition, the chain will remodel another 100 units this year, on top of the 89 major renovations completed in fiscal 1986.

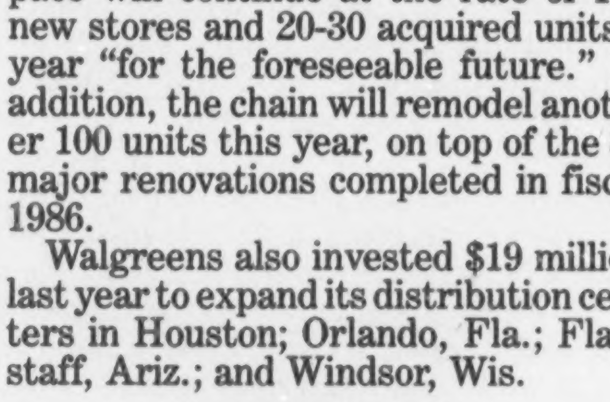
Walgreens also invested $19 million last year to expand its distribution centers in Houston; Orlando, Fla.; Flagstaff, Ariz.; and Windsor, Wis.

Capital outlays

In all, Walgreens shelled out a record $155 million last year for acquisitions, openings and improvements, with another $130 million budgeted for the same purposes in fiscal 1987. The capital outlays last year weren't enough to slow the company's earnings momentum—net income was up another 9.5% in fiscal 1986, to an industry-high $103.1 million, on sales of $3.66 billion. The heavy expenditures did cut into results for the first quarter of fiscal 1987, however, when net earnings slid 23%, to $13.2 million, on sales of $960.3 million. Changes in the corporate tax law were also to blame for the earnings drop.

The chain's aggressive expansion drive last year was only the most visible component of a wide-ranging modernization and improvement program. Walgreens also made significant new thrusts into several areas of health care, automation, distribution and merchandising. It also began marketing its formidable pharmacy services more aggressively to health maintenance organizations, nursing home customers and mail-order prescription drug buyers and opened a new 72,000-sq.-ft. computer center in Mount Prospect, Ill.

"We're not coasting or sandbagging. We're taking our funds and reinvesting them for future growth," said president Fred Canning. "Heavy costs will be incurred, but we're not taking any shortcuts. That's the way it's going to have to be."



Greeting cards draw traffic at Walgreens unit in downtown Chicago.

Boosted ad budget

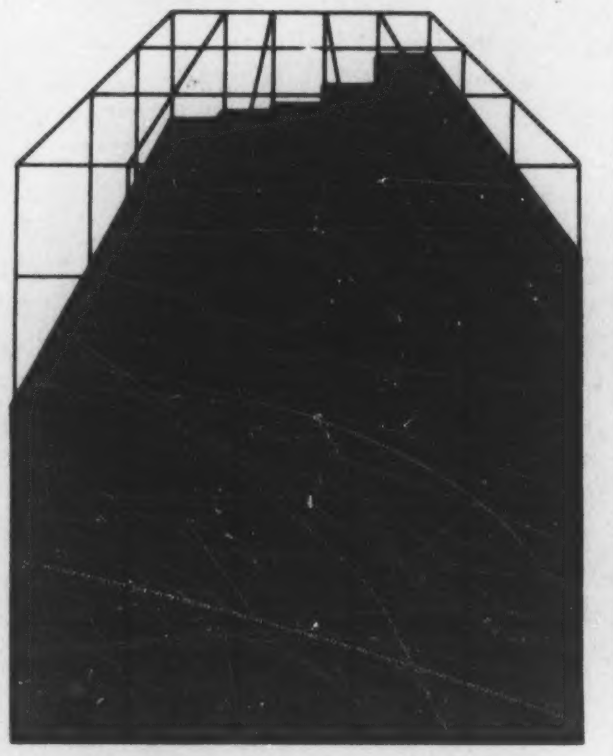
As part of its aggressive bid to build and capitalize on its market share around the country, Walgreens also made a substantial increase in its advertising budget this year, to $130 million. Part of that new advertising will focus for the first time on convenience food sections, now in place in about 400 Walgreens' stores and set for careful expansion in more markets this year.

Walgreens' overall merchandise mix will come under careful scrutiny again this year. "Fred Canning and I are heading up a committee to thoroughly review front-end store sales," Walgreen explained. "We're going to study every single item we carry for its sales potential and return on investment."

Much of the chain's recent focus, in fact, has been on the strongest component of its business: the pharmacy. Rx sales at Walgreens were up a whopping 28.5% last year and now account for 23% of total business.

Moved into mail order

To build on that strength, Walgreens has moved into mail-order prescription sales through two facilities, in Phoenix and Orlando, and recently opened a freestanding facility in Memphis to service nursing homes. Drawing on its chainwide Intercom pharmacy computer system and its strong Rx franchise, Walgreens is also going after HMO and other third-party business more aggressively.



Walgreens store count

Source: Company reports

Installation of the computer-based Walgreen Information Network in stores is also proceeding. The system links stores, offices and distribution centers for such purposes as cash and inventory management, electronic charge-card transmission, electronic mail, price changes and employee payroll monitoring. It is now being linked to a test of point-of-sale scanners, which should be chainwide by 1990, the chairman predicted.

Satellite dishes tested

To boost communication capabilities and cut transmission costs for both Intercom and WIN, Walgreens is also testing satellite dishes at a few sites. Said Walgreen: "The bottom line is that we're constantly trying to refine the application of technology to drug store and restaurant management. The best use of technology is vital to our growth and competitiveness."

At the annual meeting in January, the grandson of founder Charles R. Walgreen Sr. set forth the company's goals in simple terms. "Our corporate strategy in the years ahead," Walgreen said, "will be to stay competitive, stay focused on businesses we're in and stay adaptable to change."

Osco in $3 billion range; emerges with autonomy

SALT LAKE CITY — American Stores completed the decentralization of its operations into three giant retail divisions in February, giving the go-ahead for Oak Brook, Ill.-based Osco Drug to continue building itself into a national drug chain under a single banner.

The splitup leaves the financial, strategic planning and investor relations functions in Salt Lake City as part of a much smaller central office. Separate departments for MIS, real estate, buying, advertising and distribution, however, have now been created for each division at their own far-flung offices.

Two-year effort

The shift in power, effected gradually over the past half-year, caps a two-year effort by the $14 billion retail conglomerate to digest its 1984 purchase of Jewel Cos. and distill the numerous, scattered components of both companies into three new, more workable entities. The result is three powerful new retail chains with national impact: Osco, operating 666 super drug stores in 30 states; American Superstores, with 558 supermarkets in the East and Midwest and based in Wilmington, Del.; and Skaggs Cos., which operates Alpha Beta and Buttrey supermarkets and Skaggs Alpha Beta food/drug combo stores in the West.

To run American Superstores, the largest of the three divisions, company chairman L. S. "Sam" Skaggs recently lured former Albertson's chief executive Jonathan Scott, who will head a $6.4 billion supermarket operation and oversee its move into Florida with a new combo store format. Under Scott, who joined with Skaggs in the 1960's to open some of the first food/drug combo stores in the industry, American Superstores will begin opening combos in western Florida in 1988.

Osco Drug has emerged from the decentralization in a stronger position than ever in its drive to become the first truly national drug chain. Osco accelerated its expansion efforts last year, opening nearly 30 units, compared with 14 in 1985, and remodeling another dozen units. For 1987, the chain plans another 26 new stores, as well as 18 major remodels.

Improving market share

"We have been working on expanding in each of the marketing areas in which we operate," noted Osco president Dick George last year in an internal company report. "We think that we should be able to achieve a market share of about 25% in many of our marketing areas.

"We need to add approximately 200 more stores in those markets just to achieve a 25% share in those markets," George added. "Our numerical information indicates that we begin to gain advertising, distribution and other efficiencies at that level."

Store expansion, however, was eclipsed at Osco by other, internal efforts, as the chain came to grips with the Herculean task of consolidating the operations of its three separate drug store divisions—Sav-on and Skaggs in the West and Osco in the East and Midwest—into a unified, coast-to-coast drug chain under a single banner. Over the past year, those efforts took many forms and bore fruit in a variety of ways.

Consolidation under Osco logo

Osco's major achievement thus far has been the consolidation of its three divisions under the Osco logo, and the creation of centralized systems for marketing, merchandising, accounting and distribution. The replacement of Sav-on's store logo with that of Osco was completed late last year, in line with the chainwide consolidation under the Osco banner and the expansion of Osco's private label program with new, redesigned packaging for all Osco-brand products. Other highly visible changes occurred in the stores in each market, as Osco merchandisers developed and implemented centralized planograms for most store formats, taking the best elements of each merchandise format in its three divisions and blending them into a more unified, chainwide approach.

An additional 16% in the number of sku's has been added to cosmetics, toiletry and drug categories, according to a recent Osco company report.

One result of the remerchandising was an increase in the size of some departments in traditional Osco drug stores. Noted an internal company report: "In Osco's desire to keep inventory levels low, we shaved our selection in our cosmetics, toiletry and drug areas a bit too much. The Sav-on and Skaggs stores had a far superior selection.

"Just about every counter [in smaller stores] had to be reset to accommodate the increase in product," the report goes on. "We added 16.1% to the number of sku's in those categories and our whole organization now has the kind of selection that was available before at our Skaggs and Sav-on stores."

Larger prototype unit

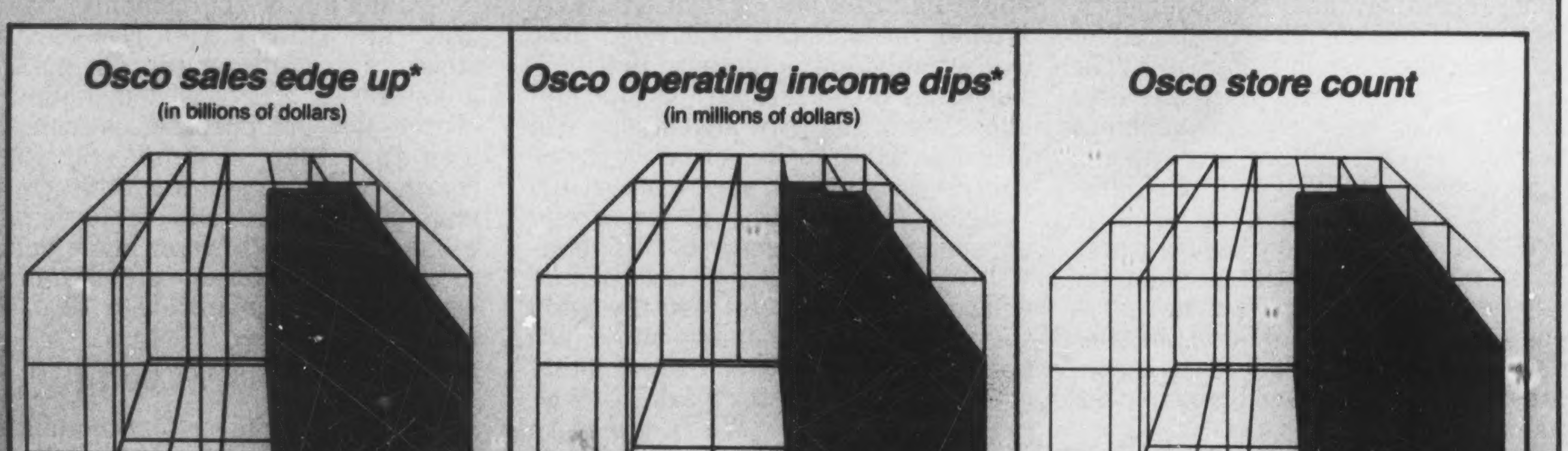
An even more visible result of the merger has been the development of a new, larger freestanding Osco prototype store, based on "information and experience gained from the 2,000 and 3,000 [larger-format] series stores," according to the report. The new layout represents an expansion from 19,859 sq. ft. to 21,415 sq. ft. with 534 4-ft. general merchandise sections, a pharmacy waiting area, an angled beer cooler for better customer traffic out of the liquor department, a cosmetic island with its own checkout and increased aisle space between the checkouts and front gondolas to allow for merchandising impulse items.

Osco has also redesigned the pharmacy counters in many stores for more efficient prescription filling and created a new, lower camera counter for customer convenience.

New ad format

Based on input from all three drug store divisions, Osco has also developed a new, cleaner advertising format, one of whose functions is to boost Osco's image in variety and selection in its traditional markets in the Midwest. The chain has also adopted Skaggs Drugs' "Smile and Speak Up" program of customer service for all its stores and has implemented a customer-response system chainwide.

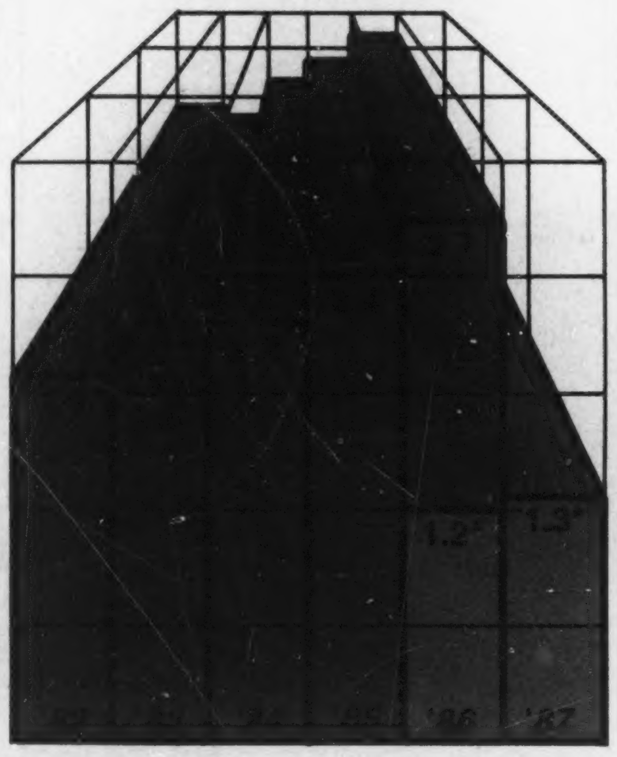
Another major change for Osco last year was the centralization of warehousing and distribution for all stores, utilizing company warehouses in Illinois, Utah and California. All stores have also been converted to the Osco system of accounting in order to simplify bookkeeping in Oak Brook. The chain is also working to improve its methods of tracking and reporting sales in each store region.



*Estimates
Fiscal year ended Jan. 31, 1987
Source: Lebhar-Friedman estimates

Figures reflect merger of Osco with Skaggs and Sav-on drug store chains following 1984 purchase of Jewel/Osco by American Stores. Figures for prior years are not comparable.

Revco sales grow 14% in 1986 year
(in billions of dollars)

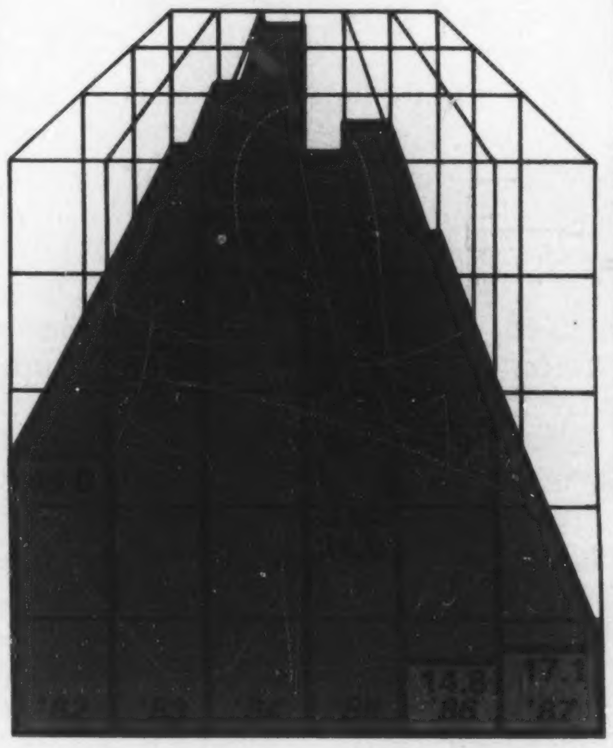


■ ***Six months***
■ ***Full year***

*Six months ended Nov. 15
Source: Company reports

Revco's "power aisle" features a variety of sharply priced general merchandise.

Revco earnings leap in 1986
(in millions of dollars)



■ ***Six months***
■ ***Full year***

*Year ended May 31
Source: Company reports

Revco eyes measured growth following LBO

TWINSBURG, Ohio — Revco entered its post-leveraged buyout phase, during which it began to streamline operations, slow the rate of unit growth and build long-term profitability as a private company.

Management capped a year-long effort to take the 2,069-store chain private, after three-fourths of its shareholders endorsed a $1.25 billion offer at the chain's annual December meeting. The LBO's total cost was $1.45 billion.

Shareholders' acceptance of a $38.50-per-share cash offer put the country's largest drug chain (in store count) into the hands of senior Revco management and other investor shareholders, including Transcontinental Services, NV, a Netherlands Antilles Company, which is the majority owner. TS's chairman, Nathaniel de Rothschild of the banking family, becomes a Revco director.

Investors' perceptions

Investors felt that Revco's assets were undervalued by the stock market and that the chain was therefore vulnerable to a hostile raider. They also felt the business was fundamentally sound, with the necessary cash flow to pay the debt requirement of a leveraged buyout and the potential to be sold again to the public in the future at a profit to its current owners.

Revco's stock price was held down by depressed earnings that stemmed from a variety of troubles. They included an unsuccessful price discounting program in key Eastern markets, heavy writedowns in its 1985 fiscal year on unsold inventories in its Odd Lot Trading Co. subsidiary and 1984 infant deaths stemming from a product made by its Carter-Glogau subsidiary.

The buyout was conceived by chairman Sidney Dworkin, president William Edwards and Glen Golenberg, of Golenberg Associates, an Ohio investment firm that has an ownership interest in the new company.

The buyout plan was based on projections that the chain could increase sales about 12% a year and generate 7%-8% operating profits, figures that are in line with Revco's historical performance.

While management will no longer have to be concerned with reporting quarterly earnings, it now has to generate cash flow to cover a debt load of $150 million a year, or five times what Revco paid as a public company.

Debt load larger

The debt structure is based on paying the bulk of a $455 million bank loan by selling off most or all of the chain's nonretailing subsidiaries. Revco has sold three already: Private Formulations, a maker of private label OTC products; General Computer Co., a software producer; and Carter-Glogau, the medicament manufacturer.

A prospectus indicated Revco would slash its capital expenditures by about 55% a year. But the chain still said that after closing 100 units initially, it will be rolling out new ones at a rate of 100 a year. Remodeling, though, can be curtailed, since 75% of units are new or have been remodeled in the last five years.

During the year, management unwrapped a string of operational reforms and management changes, as it pursued the leveraged buyout.

The goal is to reduce inventory by $75 million by 1987's end and also to cut S&GA expenses by $42 million in that same period.

Retrofit increasing sales

Officers said that it was obtaining dramatic sales increases from a new front-of-store retrofit. The changes had been introduced in 15 units and will be rolled out into all stores in two years. The main feature of the retrofit was the move of greeting cards from the back to the front of the store and pairing the card department with cosmetics. The switch made the high-margin categories much more visible and accessible to customers.

A line-by-line study of cosmetics to identify the items producing the best ROI was followed in other H&BA and OTC categories in some stores.

In January, Revco began testing slot scanners, expecting to put the devices in 10 stores by Jan. 30. The test followed completion of the installation of scanning-upgradable cash registers in all stores.

Revco also revamped its field network, which officers said would streamline chains of command and allow managers to be more responsive to local conditions. It created five zones in its 30-state trading area, divided further into 64 districts.

While Revco's central management core of Dworkin, Edwards, cfo R. Carroll Hudson and executive vp Marc Dworkin remained intact, second-tier management underwent an extensive overhaul.

Management changes

A. Richard Butler, a former F&M Distributors officer, was named senior vp-store operations, replacing Albert Sebok, who was moved into the newly created post of vp-professional services, reflecting the company's goal to protect the pharmacy segment.

Purchasing responsibility was divided between Ellis Jones and Philip Carfagno as new divisional merchandise directors. John Crowley, hired from W. T. Grant to head up Odd Lot, took on the duties of vp-merchandising. Robert Gerdony was hired as senior director for import merchandise.

Revco's sales and earnings bounced upward in its 1986 fiscal year ended May 31, after the dismal 1985 year. The performance in 1987's first six months seemed to indicate that sales and earnings had indeed stabilized.

Year-end sales were up 14% to $2.7 billion, compared with 1985's $2.4 billion. Operating earnings advanced to $125 million from 1985's $81 million, the lowest operating tally since 1980. Net earnings were $56.9 million, or $1.72 a share, compared with $38.9 million, or $1.06 per share, in 1985.

Sales and earnings

In the first six months of 1987, ended Nov. 15, net earnings were $17.1 million or 53¢ a share, on sales of $1.3 billion, compared with earnings of $14.8 million, or 44¢ a share, on sales of $1.2 billion in the comparable 1986 period.

Revco said sales from like-stores rose 6% in the second quarter, with same-store prescription sales up 10%.

Odd Lot continued to lose money, but losses declined after the stores were remerchandised.

Revco, which historically increased its stores by about 10% annually, said it added a net of 38 units in the first six months of 1987.

Cut-cased snacks and speed tables denote Revco's everyday discount theme to entering shoppers.

Eckerd begins total store upgrade

Unveils 230 Spartan remodels and targets all stores by '90

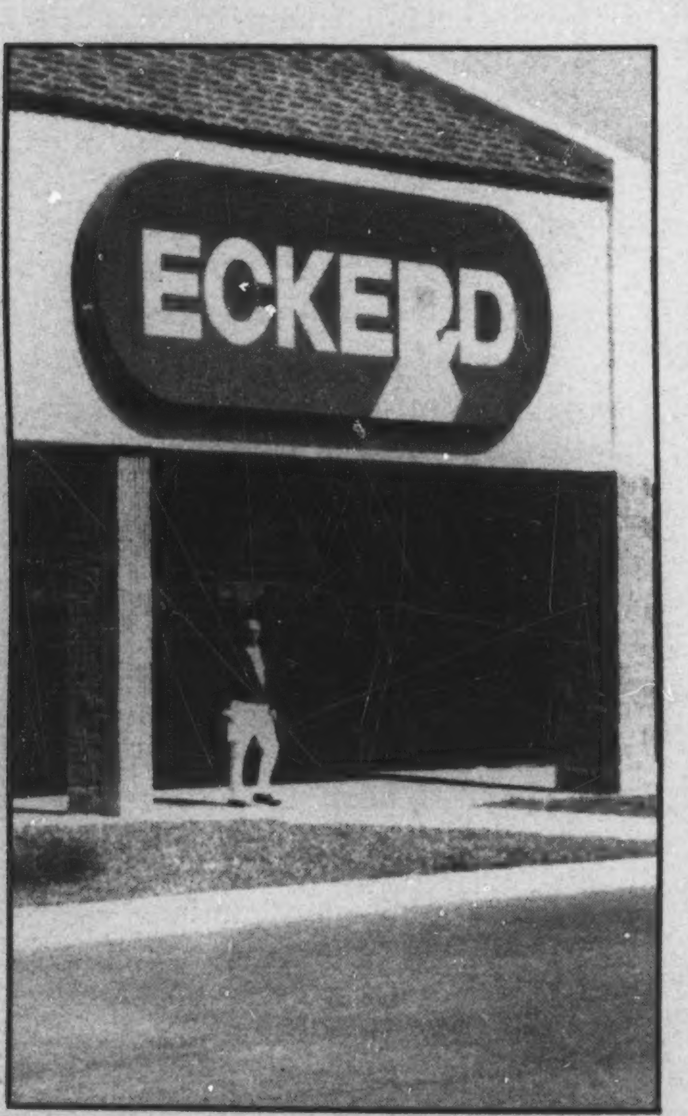
CLEARWATER, Fla. — Jack Eckerd Corp. last year began putting its new private drug chain into fighting trim.

The uncluttered Spartan format that Eckerd unveiled in Florida symbolized the lean, cash-flow-centered company the chain sought to become after its $1.2 billion leveraged buyout.

Eckerd had rolled out more than 230 Spartan remodels by year's end and said all stores will feature the new format three years from now. It was a major move to improve return on investment.

Eckerd chairman Stewart Turley said when the new company was eight months old, it was meeting its cash flow needs to support its debt load and performance was in line with projections. Free cash flow in the fourth quarter ended July 30, was $21 million, he said.

Morale was up dramatically, Turley said. Thirty top officers are manager-investors; 250 additional executives were offered stock options and employees have a 6% stake in the new profit-sharing plan.



Current mood of optimism

Current optimism contrasts with the somber mood here a year ago, when the Dart Group had latched onto a five percent stake of Eckerd stock during a period when Eckerd earnings were soft. After looking in vain for a merger partner to thwart Dart, Eckerd concluded that a management buyout offered the safest route to independence and the best value for shareholders.

Shareholders approved a $33 per share cash bid that management paid for with a combination of bank loans, subordinated debt, preferred and common stock and the liquidation of $30 million in corporate assets.

Officers said capital expenditures should stay near historic levels though they'd be directed more toward remodels—about 250-300 this year. Eckerd will open about 50 new stores within its current 15-state trading zone and the store-closing rate will be at par with the past. Eckerd had been opening about 100 stores annually.

Remodels will be in the downsized Spartan format—which is meant to improve store appearance, create an open, easily accessible layout and emphasize merchandise sought by the time-pressed working woman who is a key customer.

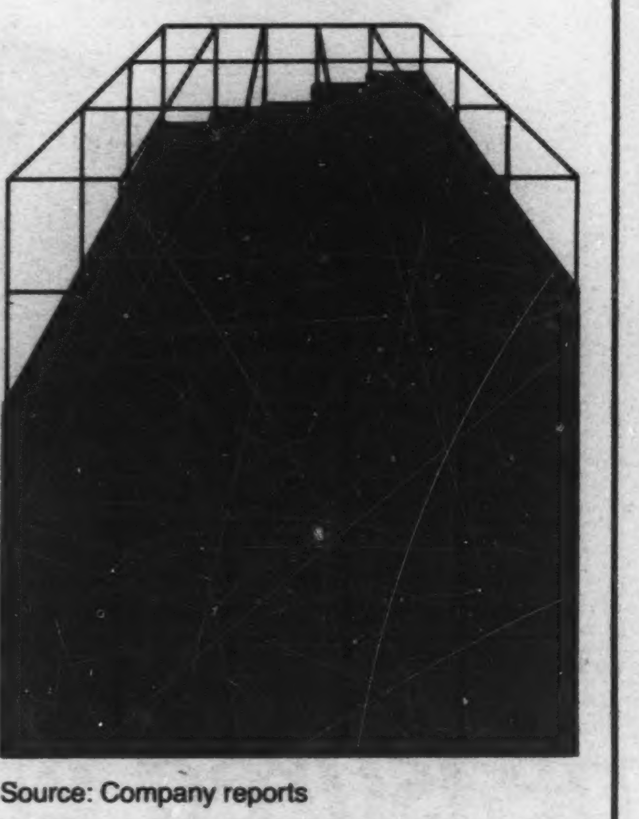
Decor includes earthtone paint, neon signs, better lighting and overhead aisle markers.

Creates 'comfort zone'

Eckerd opened up the front-of-the-store to traffic by removing a side-to-side gondola and leaving a "comfort zone," where shoppers can move about. Hosiery, cosmetics, expanding greeting card sections and new convenience food sections surround the zone.

The new food department supports a strategy of capturing consumers' convenience, unplanned shopping visits that would otherwise go to supermarkets or convenience stores.

Eckerd drug store units up 6%



Source: Company reports

Besides picking up an extra food sale, the food sections also protect the stores from losing incremental H&BA business that supermarkets pick up when they get the convenience shopping visit.

At the stores' front-left, the food sections carry twice the cookies and snacks of the older format, a new 15-ft. beer and wine segment and core convenience items such as juice and eggs. Selected stores will also take on expanded sections, with dry groceries, ice cream and frozen foods.

The Spartan format also has wider aisles, with the promotional aisle running side-to-side in the store's center to break up the front-to-back gondola runs. Case-stacked endcaps were taken out and floor-stacked merchandise generally eliminated, by using higher 64-in. gondolas. This format de-emphasizes general merchandise.

Wipes out competition

Eckerd wiped out a competitor in its home state and gained stronger presence in markets there by buying 36 Shoppers Drug Mart stores. The stores, which had failed to become profit centers under Peoples management, match Eckerd's typical 8,600- to 10,000-sq.-ft. stores and are in high-growth Florida markets in the Southeast, the West Coast and Orlando.

Have we got SAVINGS SAVINGS SAVINGS SAVINGS for you!

Eckerd's promotional power aisle bisects the new Spartan layout horizontally. Manager in this Clearwater store used upside down umbrella to feature packaged Easter candy.

Eckerd ended the year with 1,611 stores, a 6% gain from last year.

Turley said that most of the 250 to 300 units scheduled for remodels in 1987 will be outside Florida, where remodeling was focused this year on some of the chain's oldest stores.

Committed to eye care chain

Eckerd appears committed to its Visionworks eye care department stores, given its launch of two new stores following a test of five. It said it would have as many as 13 by year's end. Visionworks growth is aimed at western Florida.

The retailing venture puts doctors and opticians under one roof. Sources have said the stores can achieve $5 million annual sales in high-traffic locations, with $1 million in inventory required for start up.

Eckerd has opened a total of 26 Express Photo departments that offer one-hour, on-site photo-printing services.

The latest look in Eckerd's cosmetics departments is open, airy and uncluttered. Reduction in the size of the service counter allows easy access to pegged and shelved merchandise on the wall.

Longs focuses on future as profits begin rebound

WALNUT CREEK, Calif. — While Longs experienced a small profit rebound for its fiscal year ended Jan. 29, it is the current fiscal year on which the chain is pinning much of its hopes for strong income growth.

Longs managed to increase net income by 2% to $38.6 million in the most recent year, following a 29% gain in fourth-quarter earnings to $11.3 million.

The company said the fourth-quarter surge was mainly the result of improved gross margins and higher sales. Margins in the period rose by a strong six-tenths of a point, while sales were up 10% to $470 million.

Although profits for the year were up, they still failed to reach the historic high of $41.1 million achieved in the 53-week fiscal year ended January 1985. In fact, Longs' profit growth curve has been relatively flat for the past four years, having advanced only about 6% between fiscal 1984 and 1987.

KITCHEN KORNER

Longs uses food on endcaps for maximum promotional firepower, but many of the stores also contain Kitchen Korner convenience food departments.

Among the factors that have restrained earnings: Heated competition in Longs' principal markets, relatively aggressive store opening schedule and financial factors beyond the company's control, like the staggering increase in insurance costs that occurred in 1985.

Some of these factors should have less impact on earnings comparisons in the current year. For example, the relatively heavy complement of stores that opened during 1985 and '86 should be yielding a higher return in the current year. Longs plans to open about 11 stores this year, down from 15 last year and 17 in the prior year. The chain finished the year with 222 stores. In addition, while interest expense remains high, it is now being compared to almost equally high costs in previous-year quarters.

Cost-cutting moves

Longs has also made moves in the past year to keep costs in line and to institute new accounting procedures designed to predict, and ultimately control, the factors that have put a brake on earnings.

One cost-cutting move involved reducing the time it takes to construct a new store from an average of 11½ to 8½ months.

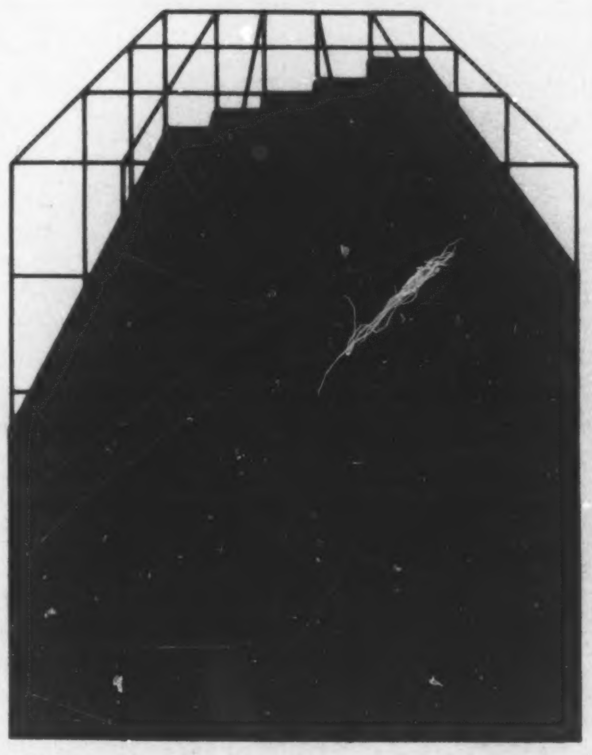
Longs also completed its store computer installation program last year. The computers provide a method of rapidly disseminating information throughout the chain and, thus, are a potent tool in reacting quickly to market trends.

To meet the heavy competition in its markets, Longs has moved to sharpen its pricing and also to improve its mix of traffic-generating hot ad specials.

"We cannot be the lowest on every item," executive vp Richard Scott told shareholders last year. "However, we feel we can achieve our goal of giving our customers the lowest combined totals."

Longs sales rise

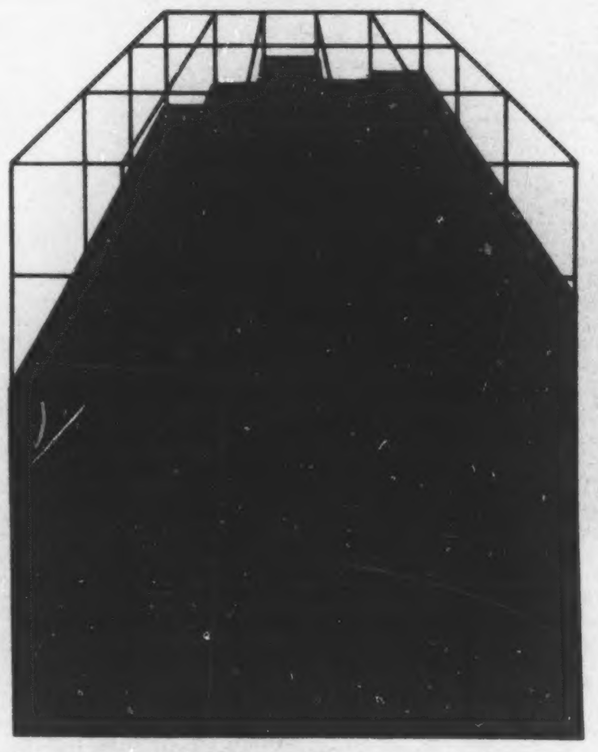
(in billions of dollars)



*Fiscal years ended January
Source: Company reports

Longs net income up

(in millions of dollars)



*Fiscal years ended January
Source: Company reports

Longs has also begun to open some smaller format stores to take advantage of opportunities in markets that would not be able to sustain a Longs' superstore. "We have the flexibility that only a decentralized chain has to open just about any size store," Scott said.

Smaller format stores

The typical Longs' store is about 26,000 sq. ft., but units can range anywhere from 12,000 to more than 38,000 sq. ft. Since the chain is decentralized and the vast majority of merchandise is shipped direct from manufacturers, the stores tend to have large backroom operations.

As part of the ongoing changes in the stores, Longs is testing a new prototype designed to appeal more to that high percentage of shoppers who are women.

One experimental change: the use of softer pastels to replace the browns and burnt oranges currently used. Some have questioned whether the softer colors should be used in parts of the stores considered male-oriented, like tobacco and liquor.

Other layout changes introduced last year include a reconfiguration of the pharmacy department to make it easier for pharmacists to consult with patients. In addition, in some stores, the Hallmark greeting card department has been moved closer to the front of the store in an effort to increase impulse sales in the high-margin category.

Management reorganized

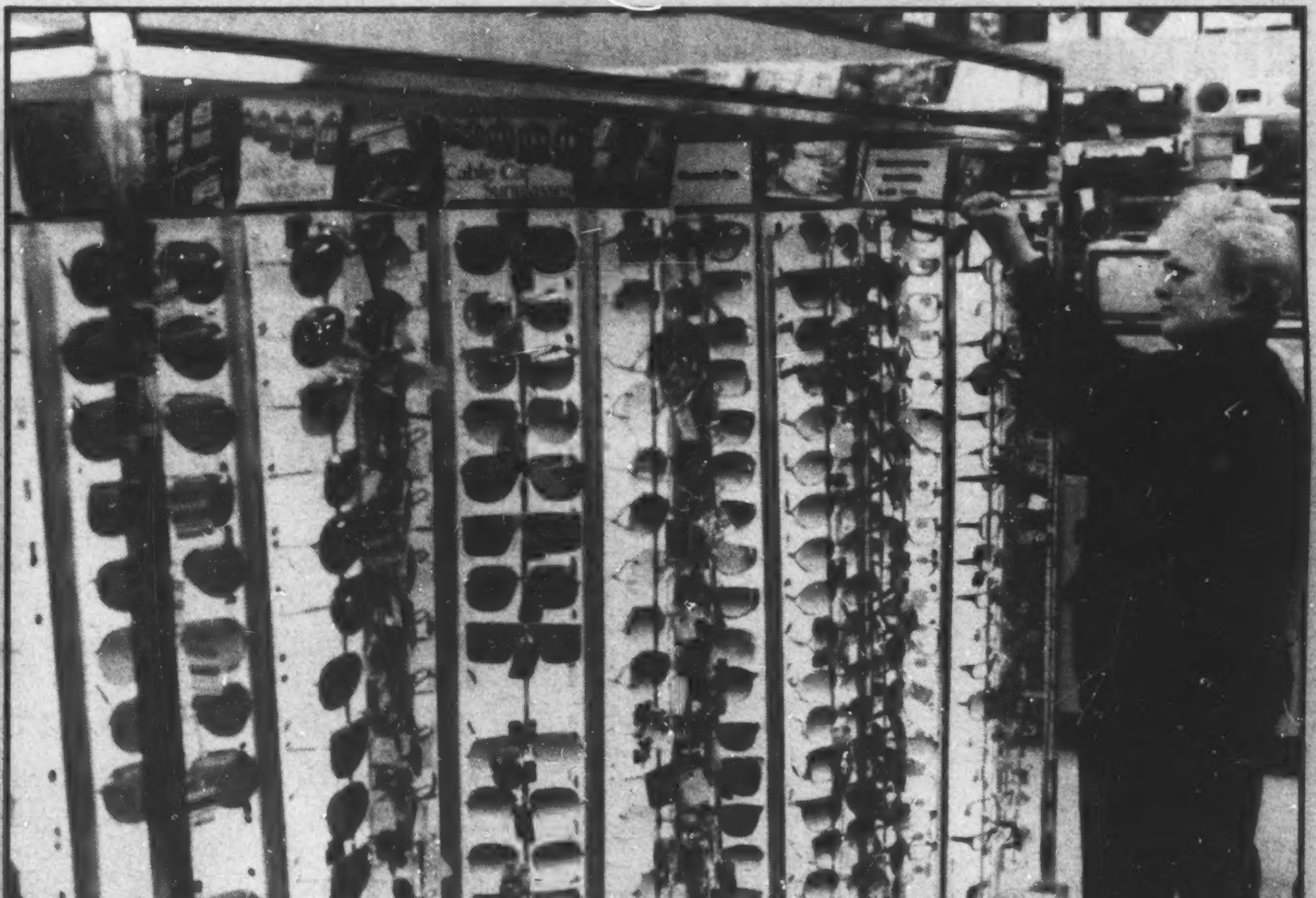
In the management area, the chain recently reorganized its merchandising and redistribution team to streamline efforts in those areas. The changes were made following the departure of vp-merchandising Phil Paz, who left to start his own import business.

Dale Bystrom was promoted to the new post of general merchandise manager, and Terry Sandin was named corporate advertising manager, another new position.

Bystrom, who reports to senior vp-marketing Stephen Roath, will oversee eight Longs merchandising administrators, who cover opportunities in various product categories but do no direct buying. But his job has been streamlined to allow him to focus more directly on the chain's total merchandising efforts.

During the year, Longs also enacted additional measures to forestall any corporate takeover artist who might have his eye on Longs' strong balance sheet and large real estate holdings.

Longs emphasizes service in its photo departments. The chain has set up a training network to assure as much expertise as possible for its photo help.



Longs offers a large selection of sunglass styles.

Rite Aid makes strides, anchors Southeast push

Rite Aid has one of the fastest expansion programs in the industry and has just passed Eckerd as No. 2 in store counts, thanks to its blockbuster purchase of 218 stores from Kroger and Sherwin-Williams.

SHIREMANSTOWN, Pa. — Rite Aid, already the No. 3 drug chain in store counts, expanded boldly in December when it contracted to buy 218 SupeRx, Gray Drug and Drug Fair stores in Maryland, Florida, Georgia and Alabama.

With the 115 SupeRx stores and 228,000-sq.-ft. distribution center in Florida, Rite Aid at once anchored its southeastern push, tapped into a fast-growing state of elderly with many health care needs, and added shipping flexibility to enhance growth prospects in this region of the country.

Combined, this is the largest acquisition in Rite Aid's history, at $110 million. The stores will add a projected $250 million annualized volume to the $1.6 billion chain. Rite Aid's new store count also helped it topple Eckerd from the No. 2 spot in stores, at about 1,680 currently.

Chairman Alex Grass told analysts recently, "Sites have become easier to acquire as more of our major competitors have limited their expansion due to their involvement with leveraged buyouts and consolidations."

Indeed, Rite Aid and Walgreens have blazed a hot takeover trail this year, expanding their presence into new markets (Florida for Rite Aid; New England for Walgreens) and fortifying market share in existing trading areas.

Rite Aid set the stage for its aggressive behavior at its annual meeting last summer when stockholders voted to double the number of authorized common shares. Rite Aid officials had stated previously that their current markets could support twice the number of drug stores there now.

The Grasses have stuck unflinchingly to their grab-it-while-we-can plan, possibly because earnings seem to have firmed in the fiscal year ended March 1. After two straight years of significant net income slides—from $74.2 million in the fiscal year ended early 1984, to $69.9 million in the following 12 months, to $62.5 million the following fiscal year—Rite Aid turned in a strong first nine months.

Corporate sales were up 12.2% to $1.27 billion, and earnings rose 29.8% to $48.8 million in the period ended Nov. 29, 1986. Full-year figures had not been reported at presstime.

Filed with S.E.C.

Since Rite Aid took on considerable long-term debt to make its blockbuster purchase, it also took one more step to strengthen its finances. It filed for a shelf registration with the S.E.C. that would enable it to raise as much as $200 million through the sale of long-term bonds.

Rite Aid was awaiting S.E.C. approval in March. Executive vp Martin Grass told *Drug Store News*, "We'll probably sell some of the bonds when we think interest rates are right" to lock in low long-term rates and retire short-term debt incurred recently.

The acquired stores already exceed Rite Aid's volume averages, "but we need to bring their pretax earnings in line with the rest of the chain," he added. That's about 8% pretax on overall margins of roughly 30%. The younger Grass predicted that by the end of next fiscal year, in February 1989, these stores "should be fast approaching maturity and overall Rite Aid averages."

Revamping purchases

Their integration is "on schedule," he said. Rite Aid is now taking inventories of the 81 Gray Drug stores in Florida. The 106 SupeRx stores in that state, plus nine in Alabama and Georgia, are being repriced and remerchandised, and in some instances, physically remodeled with new pharmacies, fixtures, checklanes, lights and floors. The 22 Drug Fair stores in Baltimore "may be twinned with ADAP auto parts and Encore bookstores," he added.

All will be renamed as Rite Aids, except for about 12 in Florida that will become deep discount Drug Palaces. "We only operate deep discounters in direct competition against other deep discounters," said Grass.

The chain will widen aisles and create more promotional space in the Florida stores, which have about 8,000 sq. ft. of selling space, compared with the Rite Aid 6,600-sq.-ft. average. Grass called it "taking advantage of space opportunities, not a test for larger format stores."

Rite Aid paid less than $500,000 for each store, an amount that barely covers inventory and fixtures. Grass called it "the cheapest price anybody has bought drug stores for in the last five or 10 years."

Rite Aid also got an eight-year-old, 228,000-sq.-ft. distribution center from Kroger as part of the deal. Its Melbourne, Fla., location is center of the state, making it ideal to service the high-growth markets of Broward, Palm Beach and Dade counties in the southeast, plus Orlando and the Gulf Coast Tampa-St. Petersburg area economically. The DC, which Rite Aid is operating already, can supply 300 stores and has extra acreage to expand.

Besides that, the new DC will be able to augment a new 265,000-sq.-ft. facility being built now in Winnsboro, S.C., that will be able to service 500 stores in a geographic area where it now has about half that. The Winnsboro DC, set to open this summer, will generally supply the Carolinas, Tennessee and Georgia, but the Florida DC brings added flexibility and backup support.

The two DCs combined will give Rite Aid the capacity to service up to 2,500 stores, Alex Grass said recently.

Capital expenditures

Not surprisingly, Rite Aid has scaled back store opening plans in the fiscal year just started to about 80 net new drug stores and 30 specialty (ADAP or Encore) stores.

Rite Aid also estimates it will undertake 150 major store remodels this year, among them 60 from the acquisitions, as part of its goal to have no store go seven years without a renovation. It will also add video to 100-125 stores chainwide, Martin Grass said.

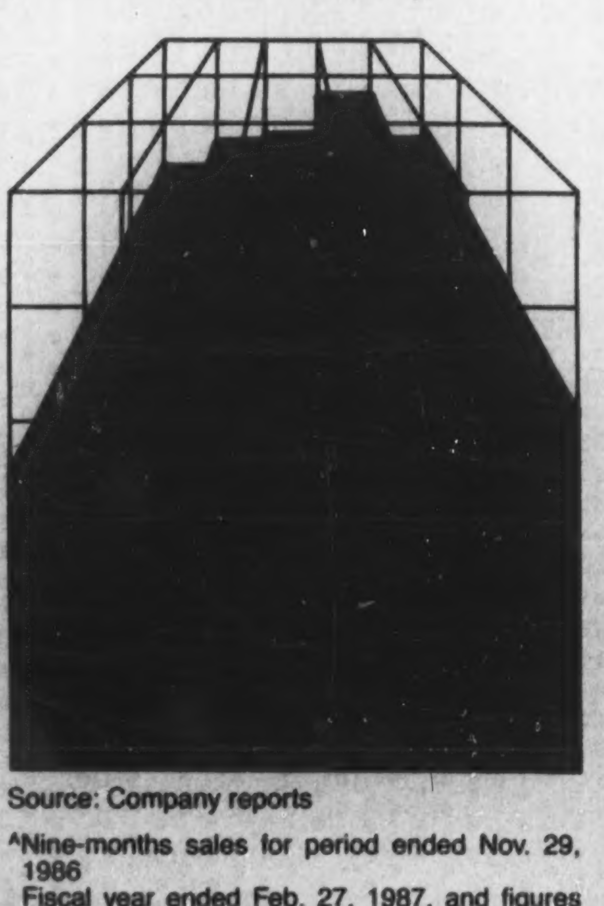
Total capital expenditures will reach the $80 million to $85 million range. That includes further rollouts of POS scanning registers and pharmacy computers.

All stores serviced by Winnsboro will be equipped with scanners, making that DC "our first to totally eliminate the manual pricing function," Alex Grass said. At the end of the third quarter, Rite Aid had scanners in 339 stores and planned to equip another 100 by fiscal year end in March.

Rite Aid also stepped up its pharmacy computer installations, from 631 at the start of the fourth quarter to more than 700 by fiscal year end.

Rite Aid sales climb

(in millions of dollars)



Source: Company reports

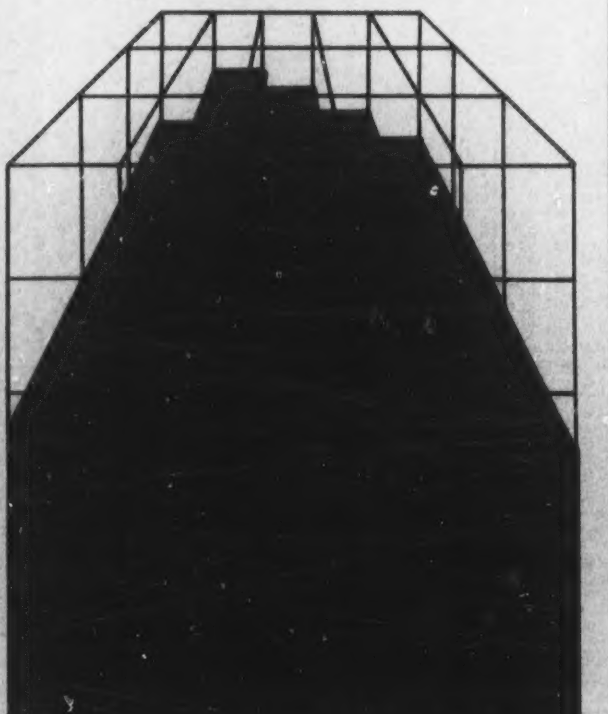
ᴬNine-months sales for period ended Nov. 29, 1986

Fiscal year ended Feb. 27, 1987, and figures weren't reported at presstime

ᴮRestated to eliminate sales of Circus World and Heaven stores

Rite Aid earnings firm

(in millions of dollars)



ᴬNine-months earnings for period ended Nov. 29, 1986

Eyes key player role in Rx mail order

In an expansion of its pharmacy effort, Rite Aid has ventured into mail order with its January creation of Rx USA.

The new division could account for $15 million volume by the end of its first full year of operation and eventually reach $50 million sales out of its current Oaklin, Pa., facility, said Dave Dalton, vp and director of professional relations.

"We can still get in on the ground floor before any consolidation takes place," said Martin Grass, noting similarities to the chain's video approach. That too was a retail segment populated by independents, which left an opening for Rite Aid to build a strong presence quickly.

Grass, promising to be a "major factor in five years," said Rite Aid would "take advantage of our purchasing power" and use other efficiencies to make Rx USA profitable.

Cost containment measures

The mail-order division will buy 80% of its merchandise from the Harrisburg, Pa., distribution center of Rite Aid, which could pass along its volume savings. Rx USA is equipped to keep patient profiles, alert patients to possible drug interactions and provide drug utilization reviews, "which meets cost containment concerns of third-party payers," Dalton said.

At Rite Aid, pharmacy generates 37% of volume, and 39.1% of the chain's scripts are third-party reimbursed, up from 35.9% last year. Generics account for 27% of scripts filled and 19% of pharmacy dollar volume.

New leadership focuses on revitalizing Peoples

ALEXANDRIA, Va. —Will the big bang theory be proven true at Peoples Drug Stores this year?

Many in the trade had their ears to the ground at presstime, expecting footsteps from the north to march in a new beginning at the slumping chain—which had its best year in fiscal '85 and has slid considerably since then.

The stage is set for massive changes at the nation's No. 7 chain.

For one, former chairman Sheldon "Bud" Fantle resigned this winter. He spent much of his career transforming Peoples from a lethargic giant into a lively, viable growth force in 14 states.

Secondly, Canadian parent Imasco Ltd. created the Imasco Drug Retailing Group, a joint Shoppers Drug Mart/Peoples entity headed by SDM chairman David Bloom. While Shoppers and Peoples will continue to operate independently, it is clear that a Canadian influence will be felt at Peoples, and the U.S. chain will focus merchandising efforts on health departments and pare back general merchandise.

Thirdly, David Eisenberg has been promoted to senior executive vp and coo of Peoples and reports directly to Bloom. He is credited with sharing and executing Fantle's vision, as together they injected life into Peoples and diversified the chain into home health care centers, optical stores, Hardee's food service in drug stores and Bud's deep discount stores.

Maintaining continuity

By keeping Eisenberg at the top, Imasco maintains high-level continuity and places a personality expected to work well with Bloom. Both are regarded as young, driven and respected retail drug executives. In a recent *Drug Store News* interview, Imasco president and ceo Purdy Crawford said Bloom's talents rest in "recruiting good people, bringing good people up through the company and delegating." Crawford noted Eisenberg's marketing background and called him "exciting."

No further management changes were announced, although industry executives expect a round of consolidation soon.

The leadership at Peoples will first have to reverse a downward earnings trend before moving Peoples back on track toward Fantle's ambitious 3-2-1 goals: a 3% net-to-sales ratio, $2 billion sales and 1,000 stores.

In the fiscal year ended March 31, 1986, operating profits slid to $40.1 million compared to $47.7 million in the prior year, which set a Peoples earnings record.

Earnings fell despite a considerable sales increase to $1.33 billion, compared to $1.03 billion in the prior year. Peoples ended the fiscal year with 832 stores, up from 758 the year earlier and just 527 in 1982, a measure of the chain's rapid expansion

9-month profit slide

Imasco hasn't reported full-year fiscal 1987 results yet, but Peoples slid from black to red in the most recent nine months ended Dec. 31, 1986. The chain showed an operating loss of $3.1 million in the period, a 110% drop from operating profits of $30 million in the comparable nine months of the prior fiscal year.

Imasco said the loss reflected lower gross margins. This was linked presumably to distribution problems now being resolved, which created merchandise overstocks and clearance markdowns.

Nine months revenues at Peoples rose 7%, however, to $980 million, reflecting in part comp-store sales gains of 2.9% and comp-prescription-sales gains of 14.8%

All figures are in U.S. dollars. Peoples ended the quarter with 830 stores, following its sale of 32 SDM stores in Florida to Eckerd.

Peoples' abandonment of the Florida market marks an apparent strategy reversal. Peoples had managed those stores for parent Imasco since May 1985, and they were to be a cornerstone of a major push into promising parts of Florida. Local market sources said, however, that the stores "struggled for identity" and suffered from an unfocused pricing strategy.

Neither Peoples nor Imasco has indicated whether this means Peoples' mid-Atlantic reach will be permanently blunted at the Georgia line, or whether Peoples would refocus on the state in a different way. Rite Aid's recent purchase of nearly 200 stores in Florida and plans to expand there may impact Peoples' thinking. Rite Aid also just established a presence in Baltimore and is pushing into the southeast as a more frequent competitor of Peoples.

For Peoples to combat this competition and make itself less vulnerable to discounting, trade observers said, it has to reinforce its health care image and price more sharply.

$10 million store redesign

Bloom told *The Washington Post* recently that Peoples will spend $10 million this year to redesign Washington, D.C., area stores to emphasize pharmacy, cosmetics and health aids, while paring back general merchandise. Bloom and Eisenberg have declined interviews with *Drug Store News* until their plans for Peoples are set.

"Peoples has become a general store with a pharmacy; we now want to become a pharmacy that sells general merchandise," Bloom told the *Post*.

Indeed, some of this thinking was evident as early as December. When Dart Drug Stores launched its aggressive recasting campaign late in 1986, Peoples responded with an ad focused on pharmacy and the million-plus scripts it has filled in the market over the years, local sources said.

And in a February 1987 flyer, Peoples took an unusual step to clear out toys, hardware, seasonals and other general merchandise categories. It offered markdowns as high as 50%

Market sources saw that as a sign of lingering inventory problems that can be traced to the 500,000-sq.-ft. distribution center in Fredericksburg, Va. Imasco's Crawford conceded recently that the DC operated initially at 10% of capacity and led to out-of-stocks but said that figure is now 60%, with a goal of 80% to 90% by the summer.

Out-of-stock woes

Market sources within Peoples and outside the chain lead to this account: Failed software at the DC said merchandise moved out of the DC, but instead it sat. This caused continual out-of-stocks on 20% to 30% of merchandise at store level and poor use of cube space on trucks and prompted reorders and a massive inventory backup at the DC.

Peoples was asking vendors to take back merchandise as recently as February, local sources said.

These combined efforts to restress health-related business and clear DC space for a new, appropriate product mix might better enable Peoples to compete in the Washington-Virginia-Maryland area, where it has about 40% of its stores.

That mid-Atlantic region has gotten tougher ever since Giant and Safeway added pharmacies and aggressively sought H&BA business. Giant has 85 pharmacies in 141 stores there and Safeway 86 out of 160. A *Post* report said both chains plan to open pharmacies in new and remodeled stores where leases don't restrict them.

On top of that, Dart is seeing positive signs from its image campaign, with comp-sales gains in January and February that indicate some progress in developing customer loyalty.

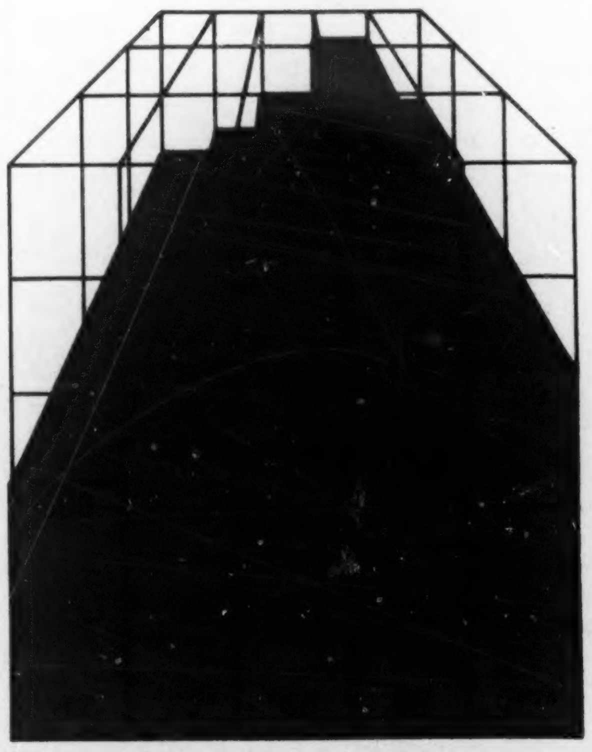
When Imasco's Crawford told *Drug Store News* that Peoples should be profitable in fiscal 1988, he made assumptions while accepting some blame. He said Peoples might operate 30 to 50 fewer stores by fiscal year-end unless it could swap locations with other drug store operators who similarly would want to leave a weak market and fortify a strong one.

He said further that, "We at Imasco certainly didn't discourage any acquisitions. We probably encouraged some. And we're probably as much at fault as anyone."

Too-rapid expansion through takeovers and diversification has been blamed for Peoples' recent performance. Sources close to the company felt efforts often went to the new retail ventures and management's eye was off the ball of core drug store retailing.

Peoples sales trend up

(in millions of dollars)



[A]Nine months ended Dec. 31, 1986

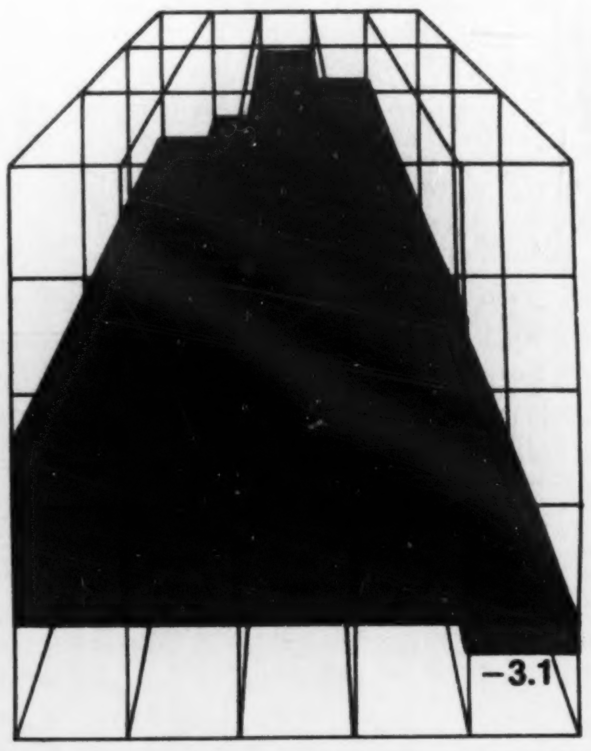
[B]1983 results. Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full year results.

All Peoples results are in U.S. dollars.

Source: Company reports

Peoples operating income (loss)

(in millions of dollars)



[A]Operating loss in the nine months ended Dec. 31, 1986

[B]1983 results. Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full year results.

All Peoples results are in U.S. dollars

Source: Company reports

Listermint
TO MEET or BEAT
ANY ADVERTISED
PRESCRIPTION
PRICE...

Peoples uses an aggressive prescription pricing policy to offset competition from Giant, Safeway and Dart.

Shoppers' Ontario buy bolsters share

76-unit Super X Drugs provides growth vehicle for chain

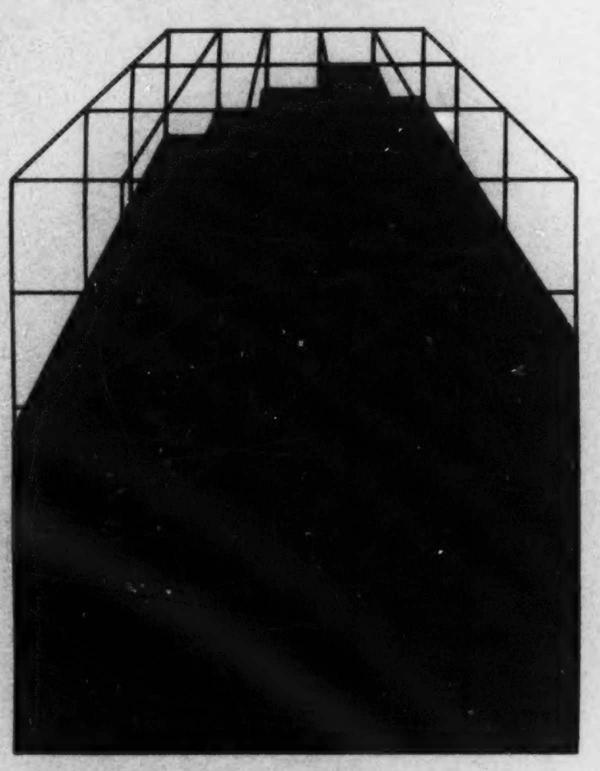
Earlier this year, Shoppers Drug Mart, Canada's largest drug chain, acquired 76-unit Super X Drugs Limited, based in Ontario.

The acquisition gave Shoppers a much stronger foothold in the western section of the Ontario province, while providing an opportunity for Shoppers to boost its already high 28% national market share to a possible 32%. Some sources think the acquisition could push the share even higher, to as much as 35% overall in two years or more.

But, in addition to a heightened share of market, the acquisition gives Shoppers another formula with which to work. The Super X stores are much smaller than conventional Shoppers Drug stores: 3,000-5,000 sq. ft. on average for Super X, compared with 8,000 sq. ft. for an average Shoppers.

Shoppers Drug Mart operating earnings

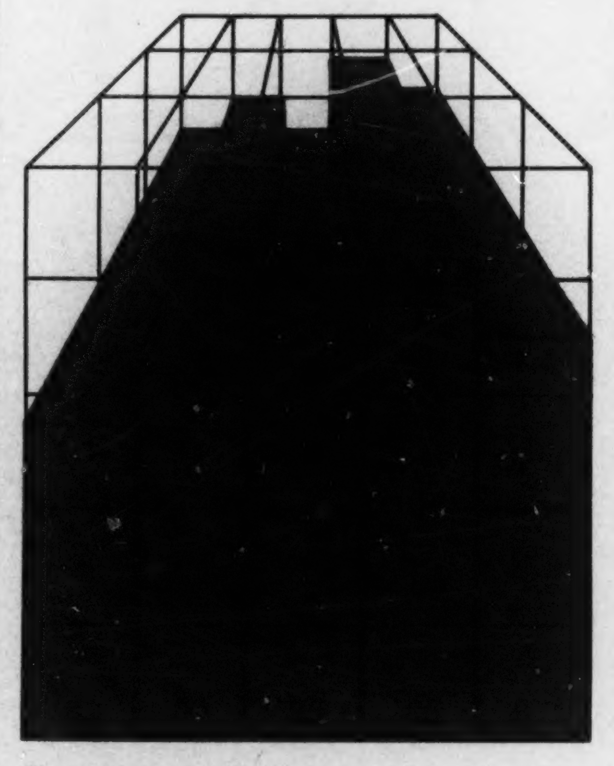
(in million dollars Canadian)



*For nine months ended Dec. 31, 1986.
Fiscal year ends March 31
Source: Company reports

Shoppers Drug Mart sales

(in billion dollars Canadian)



Fiscal year ends March 31
*For nine months ended Dec. 31, 1986.

Adds to market mix

Now, as Art Konviser, Shopper's director of consumer affairs, points out, the chain has a growth vehicle for smaller Canadian towns and provinces.

"The acquisition fills a void in our marketing mix," Konviser said. "It gives us a chance to reach a different kind of consumer base. It'll let us put stores in locations that would only be secondary sites for our conventional format.

"We usually need a population base of at least 10,000 people to open a Shoppers store. We can open the smaller stores with a base of 6,000 or 7,000 people.

"We can take on more downtown locations, as well as go into smaller cities," Konviser added.

The Super X drug stores also break even at a substantially lower dollar volume than the conventional Shoppers stores. Many of the conventional Shoppers stores are located in malls, where rents are higher and there are also substantial costs for services like snow removal.

The smaller Super X stores have street or strip center locations and consequently have a "much lower break-even point" than the conventional Shoppers drug stores.

Konviser said Shoppers plans to assess both formats and open the smaller stores as either Shoppers or Super X, "wherever it makes sense."

129 stores added

For its fiscal year ended March 31, Shoppers will have added a total of 129 stores to its base, including the 76 Super Xs, plus 53 newly opened stores.

For fiscal 1988, Shoppers plans to open another 29 stores, including two more Super Xs. About five of the current Super Xs will either be closed or converted to the Shoppers' logo.

Konviser said growth in the Super X division, which will be operated separately from the Shoppers drug store chain, will be conservative at first, as Shoppers concentrates on "digesting and consolidating" the acquisition.

For fiscal 1987, Shoppers will have a total of 563 stores and sales in excess of $1.8 billion in Canadian dollars. That's an increase of about 12.5% over 1986 fiscal year-end sales.

Included in the universe of Shoppers stores are 10 combination Shoppers Drug/Food Basket Stores, 14 Shoppers Drug/Home Health Care stores, seven franchised Carnevale Deep Discount drug stores, 10 company-owned Howie's deep discount drug stores, and two brand-new super-combination Shoppers Drug/Food Basket and Home Health Care Center stores.

Food Baskets, Home Health

In 1986, Shoppers opened six stores with Food Baskets and four with Home Health Care Centers.

Growth will continue in these formats, said Konviser, but the decision to open Food Baskets or Home Health Care Centers will depend on individual store locations and market demographics.

"We will expand into this type of format wherever we see an opportunity," he said.

Konviser added that at least two more super-combination Shoppers with both Home Health Care Centers and Food Baskets will open in 1987, and there may be more "if the right locations present themselves."

24-hour stores

In 1986, Shoppers also opened two experimental 24-hour conventional drug stores, and Konviser said this concept also shows promise for further expansion.

"In addition to being very successful," he said, "it's also an important move for us, because it established Shoppers as being a concerned health care professional.

"People sometimes need services on a 24-hour-a-day basis, and by having 24-hour stores, it shows that Shoppers understands that need and wants to meet it."

However, he added, "We have to look at the individual situations. These have to be established stores, and they have to be stores near hospitals."

Food plays an important part of the merchandising mix in select Shoppers Drug Mart stores. In 1986, SDM opened six stores with Food Basket departments and now has a total of 12 combination drug/mini-food stores.

Shoppers to install scanning registers

Shoppers Drug, which has invested in point-of-sale registers with scanners for most of its company-oriented Howie's deep discount drug stores, is now experimenting with electronic scanning registers in three of its conventional Shoppers drug stores.

Earl Biderman, Shoppers vp-management information, said Shoppers will put scanners into about 11 more Shoppers during this year. Moreover, the chain will add a scanning system to the one existing Howie's that lacks it and plans to open all future Howie's with scanning systems.

At the end of March, Shoppers was operating a total of 10 Howie's Deep Discount drug stores and about 500 Shoppers drug stores.

Shoppers is also continuing to upgrade its front-end registers, while outfitting its pharmacy departments with Rx computers.

At the end of this fiscal year, about 110 Shoppers stores had electronic front-end registers. Biderman said the new registers will be installed in additional stores at the rate of about 90 stores a year, including installations in new stores.

At the end of this fiscal year, too, about 200 Shoppers stores had pharmacy computers, a 100% increase over last year. Shoppers hopes to have Rx computers in about 360 stores by the end of fiscal 1988 and to finish the installation before the end of this decade.

Bloom appointed chairman in '86

TORONTO — The year 1986 was an eventful one for David Bloom, ceo and chairman of Shoppers Drug Mart, Canada's largest drug chain.

In June, Bloom, a 23-year Shoppers veteran and its ceo since 1983, was also named chairman of the $1.6 billion chain. The move made Bloom one of the youngest chairmen ever to serve in the retail drug store industry.

Last January, Shoppers' parent, Imasco Ltd. of Canada, merged the Shoppers drug store division with its sister drug store division in the United States, Peoples Drug, and Imasco chose Bloom to oversee the operation of Imasco's newly created Drug Retailing Group.

Toronto-Alexandria commute

Today, Bloom is spending about 50% of his time commuting between Toronto, where Shoppers is headquartered, and Alexandria, Va., where Peoples is based.

Part of Bloom's new responsibilities include working with David Eisenberg, Peoples' senior executive vp and coo, to eliminate the problems that have had a negative impact on Peoples' earnings.

Bloom is still overseeing Shoppers' growth in each of the company's various divisions: conventional franchised Shoppers drug stores and franchised Carnevale deep discount drug stores, company-operated Howie's deep discount drug stores, combination Shoppers Drug/Home Health Care Centers and combination Shoppers Drug/Food Baskets, which are drug stores with miniconvenience food departments.

Goal for decade

Strategic plans call for Shoppers to become a $2 billion chain of approximately 600 stores by the end of this decade.

Bloom and Eisenberg, sources say, are still working out a reformulation of strategic growth plans for the 850 stores in the Peoples division.

Under Peoples former ceo, Bud Fantle, the chain was striving to reach 1,000 stores and $2 billion in sales, while maintaining a 3% net to sales ratio.

Before Peoples can do that, sources say, Bloom and Eisenberg will have to devise a plan for doubling the chain's current operating earnings.

Thrifty conventionals and Jrs. growing strong

LOS ANGELES — Thrifty Corp. focused its retailing mission by rolling out its Thrifty Jr. format, bursting into new states with sporting goods stores and dropping its Trak Auto West and Crown Book operations.

Entering 1987, the company was poised for continued strong growth in conventional Thrifty units and the downsized Jrs., with backing from the Pacific Lighting Corp., which became its new owner in June.

Leonard Straus, Thrifty chairman and ceo, termed the merger "a new beginning, with expanded opportunities."

"Now we have the capability to take advantage of additional opportunities, which can lead to accelerated sales and earnings performance," Straus said in Pacific Lighting's annual report for 1986 ended Dec. 31.

Merger impact

The merger—which was startling after 57 years of Thrifty independence—was endorsed by shareholders of both companies on Aug. 5, and Straus was elected to P.L.'s Board of Directors.

Besides giving Thrifty access to the credit lines of the diversified holding company and utility ($5 billion in sales in 1985), Thrifty can benefit from the holding company's land development and construction business as it rolls out new stores.

The utility saw Thrifty as a stabilizing influence on its own sales and earnings.

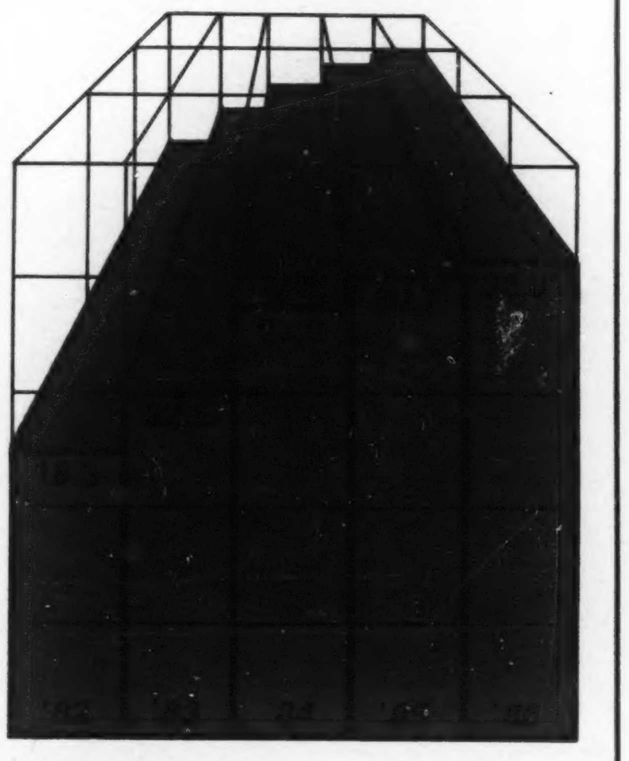
Pacific Lighting will have no reason to tamper with Thrifty's operations. "They seem to know what they're doing and have been doing it very successfully," noted a Pacific Lighting official recently.

Sales and earnings

Thrifty continued to produce strong sales and earnings results in 1986, although expenses stemming from the merger with P.L. dampened earnings somewhat. Thrifty's fiscal year end was moved from Aug. 31 to Nov. 30, and the chain reported its most recent 12-month results based on that new calendar.

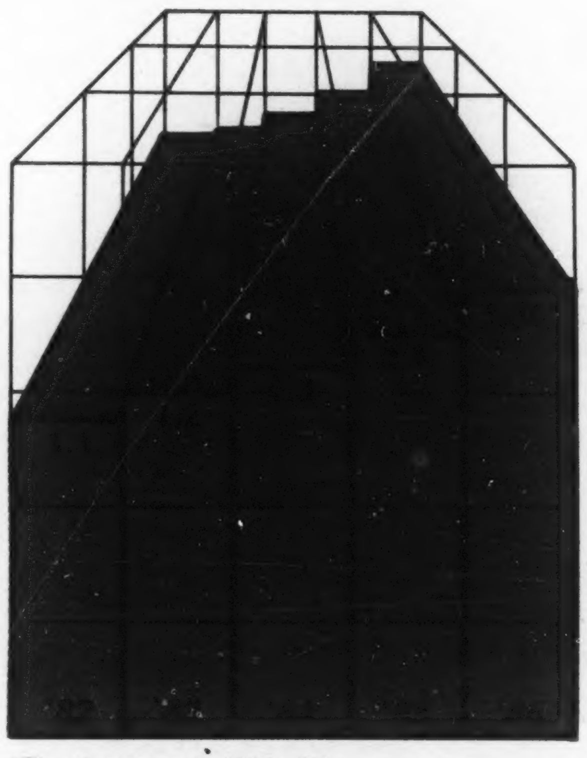
Sales continued on the 10%-12% growth pace of recent years, with operating revenues at $1.55 billion, up 10.7% from $1.4 billion in 1985. Same-store sales were up 5.1%.

Thrifty Corp. net income grows 5%
(in millions of dollars)



*Year ended Nov. 30
Source: Company reports

Thrifty Corp. sales jump 10.7%
(in billions of dollars)



*Fiscal year ended Nov. 30

Net income was $32 million, a gain of 5% from 1985's $30.7 million. The increase, however, is off Thrifty's average annual compound growth rate for net income of 15.6% achieved in recent years. Earnings were dampened by a $1 million cut in operating income stemming from a LIFO inventory adjustment that was $2 million greater than the 1985 LIFO adjustment.

Also sapping earnings were higher insurance costs and computer software expenses incurred to adjust to P.L.'s accounting practices, the company said.

Earnings were reduced by $1.3 million as a result of the 1986 Tax Reform Act, which eliminated investment tax credits for the year.

Thrifty analysts said that expenses relating to the merger helped reduce the year-end operating margin to 4.6%, from the 5.1% level of the previous two years.

But the company continued to post return on equity well above the average for the industry. Its 1986 R.O.E. was 21.5%, compared with 21.9% in 1985 and 18.9% in 1984.

Thrifty Jr. launched

In 1986, Thrifty launched a bold, sustained bid for small-town markets with the Thrifty Jr. prototype (3,000-11,000 sq. ft.). It started with the purchase and overhaul of the 15-store Southern Californian Drug King chain in February. By November, there were 32 Thrifty Jrs., including 12 converted Guild Drug stores acquired in April and four Guy's units bought in August.

While the Jrs. are targeted at 5,000-7,000 population markets, the chain also announced it would install Jr. units in Ralphs Grocery Co.'s Giant superwarehouses in Southern California. It said 10 small Jrs. (4,500 sq. ft.) with pharmacy and pharmacy-related merchandise will sublet space in the warehouse stores, with separate entrances.

The Thrifty Jr. thrust means Thrifty will double its recent annual new-store rollout. The company said of 50 new units planned for 1987 (apart from any acquisitions), 25 will be Jrs.

Thrifty said in the annual report that some Jrs. will be built from the ground up, a new strategy that apparently reflects the company's access to P.L.'s fiscal resources. In launching the Jrs. 12 months ago, it had said stores would be opened either in leased space or through acquisitions.

Thrifty ended the year with 562 conventional drug stores, a net increase of seven. It said that 75% have been converted to the Perfecto prototype, and the whole chain should feature the format by decade's end.

Sporting goods thrust

Underlining its commitment to the recreation market, Thrifty bought sporting goods stores that made it the country's third largest retailer of such goods. It gained the 15-store, Colorado-based Gart's in March, moving into the state for the first time, and bought more Midwest units. Ending the year with 118 sporting goods stores, a net gain of 32, it planned to open 20 in 1987.

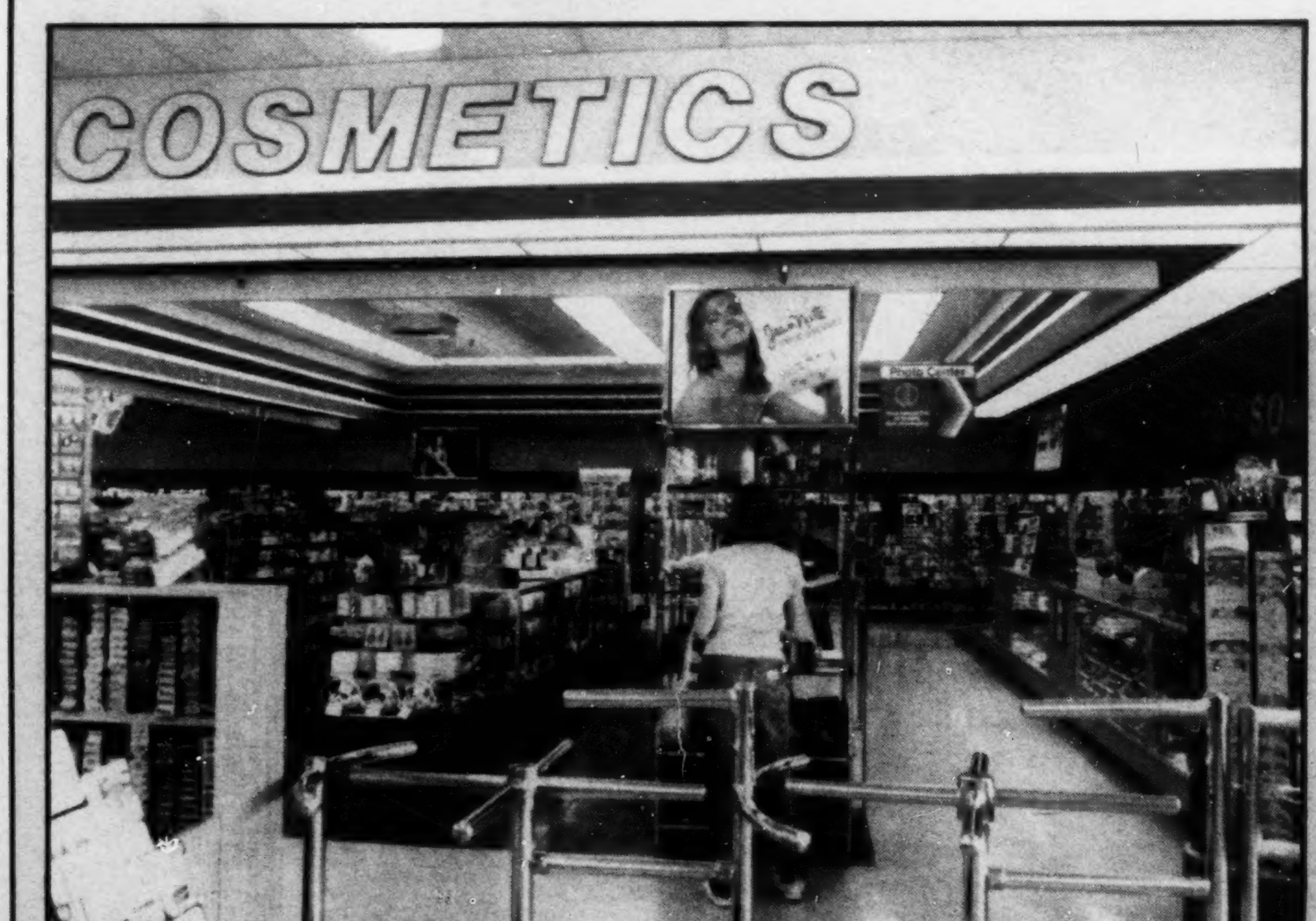
Thrifty divested the Trak Auto West stores and its 50% interest in the Dart Group's Trak Auto business, after losing over $11 million since 1983. It also sold back to Dart its 34% interest in Dart's Crown Book chain.

Computerization goal

The chain expects to complete the rollout this year of pharmacy computers, which began in a $60 million 1985 joint venture with IBM. By November, 464 stores had pharmacy systems. A test installation of POS systems employing an IBM Series I computer is also under way.

In 1987, Thrifty plans to use its store openings to solidify market positions in its nine Western states. Last year, Thrifty backed away from entering western Colorado with drug stores, as a consequence of the area's depressed economy.

The vast majority of Thrifty stores are in California, with 302 conventional Thriftys and 25 Thrifty Jrs. in Southern California, and 170 conventional and six Jrs. in the northern half of the state.



A dropped ceiling highlights core drug departments to the right.

SOUND
RAZOR BLADES

Thrifty creates a boutique effect in this West Van Nuys, Calif., store using etageres and colored tile.

CVS increasing focus on convenience, Rx

WOONSOCKET, R.I. — CVS Drug Stores, which had another very strong year in 1986, is beginning to react subtly to new merchandising opportunities in its various regional neighborhood markets.

The 634-store chain, which is located primarily in urban and mall markets in the Northeast, has always been known as a mass merchant specializing in a wide variety of health & beauty aids and over-the-counter drug products.

CVS is carefully preserving that identity, while continuing to upgrade pharmacies in as many stores as possible. The chain is also putting new emphasis on the merchandising of select "convenience" general merchandise.

In certain stores and markets, the chain is experimenting with a small assortment of convenience food items such as milk, juices and snacks, as well as with reasonably priced small household items such as oven mitts, microwave accessories and dish drainers.

Most stores now have fairly large departments for women's hosiery, and many others are starting to reserve space for T-shirts and men's briefs.

The point, according to company sources, is to broaden CVS's appeal to the "convenience - minded shopper" while building on CVS's strength as a full-range drug store with a broad assortment of traditional drug store items.

CVS is also working on a new prototype for its pharmacy departments. About 430 stores (approximately 68% of all CVS stores) now have pharmacies, and management is trying to enhance CVS's perception as a "neighborhood drug store."

The newest prototype for the pharmacy department includes a small, low consulting area, located at the far side of the department. If a customer wants to talk in private about a problem, the pharmacist can draw him or her off to the side for a quite consultation.

The new prototype also includes the words "Ask the pharmacist" as part of the logo on the sign over the pharmacy department. The new logo has warm red background tones with the words written in white. The letters "CVS" are subtly reproduced throughout the red background as an integral part of the graphic design.

"What we want people to realize when they see the words 'Ask the pharmacist,' said a company source, "is that we are a neighborhood store and that we do want people to ask questions of our pharmacists. It's just a small thing, but we want them to know that we hope they'll confide in us and talk to us."

From the mid-70's on, CVS has been one of the industry's fastest growing and best performing drug chains.

At a time when competition in the drug store marketplace is intensifying and disinflation has been retarding sales growth, CVS last year generated an 11% increase in same-store sales and a 16% increase in total sales, to $1.18 billion.

Operating profits for the chain and for its sister drug store division, the 11-unit Freddy's deep discount drug chain, were also up 12% in 1986, to $88.1 million.

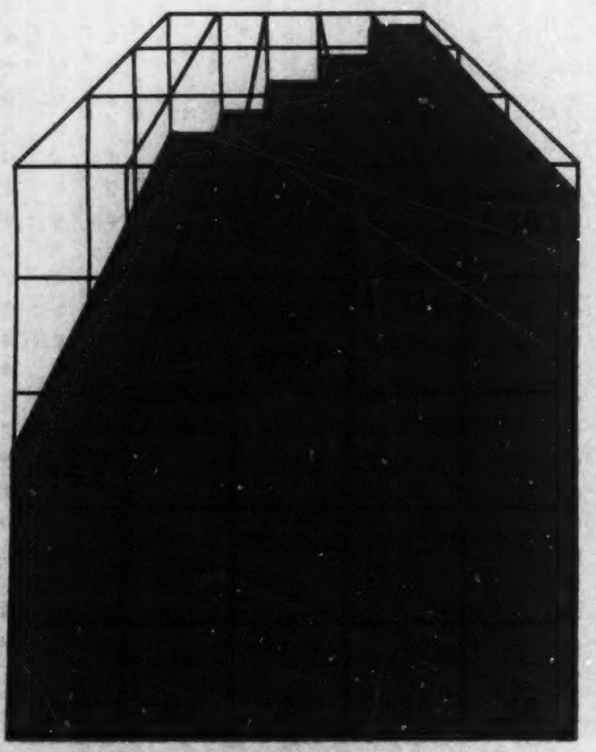
Because of its success, management has no desire to change the CVS marketing strategy radically, but the chain is aware that there are untapped opportunities for creating new sales by adding new items to the CVS mix.

Slow-turning items, which CVS can quickly identify through its sophisticated systems of inventory control, are constantly being dropped from the CVS mix. Replacing them are new products from the traditional CVS categories (e.g., shampoo and hair color) and some of the newer CVS categories, such as men's underwear, cold juices and microwave accessories.

By expanding the mix carefully, CVS is hoping to bring its traditional shoppers in more often as well as lure new shoppers.

CVS sales strong

(in millions of dollars)



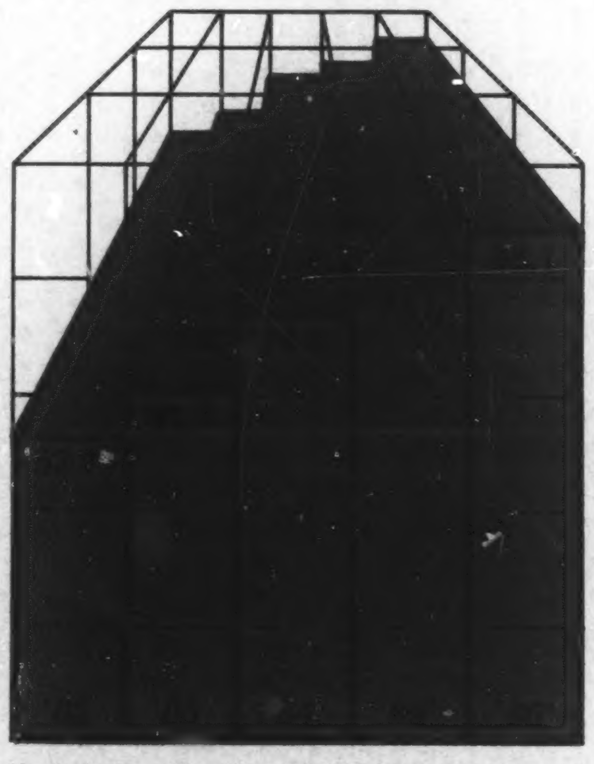
Source: CVS annual reports
Fiscal year ended Dec. 31, 1986

SEA BREEZE
CVS
CVS

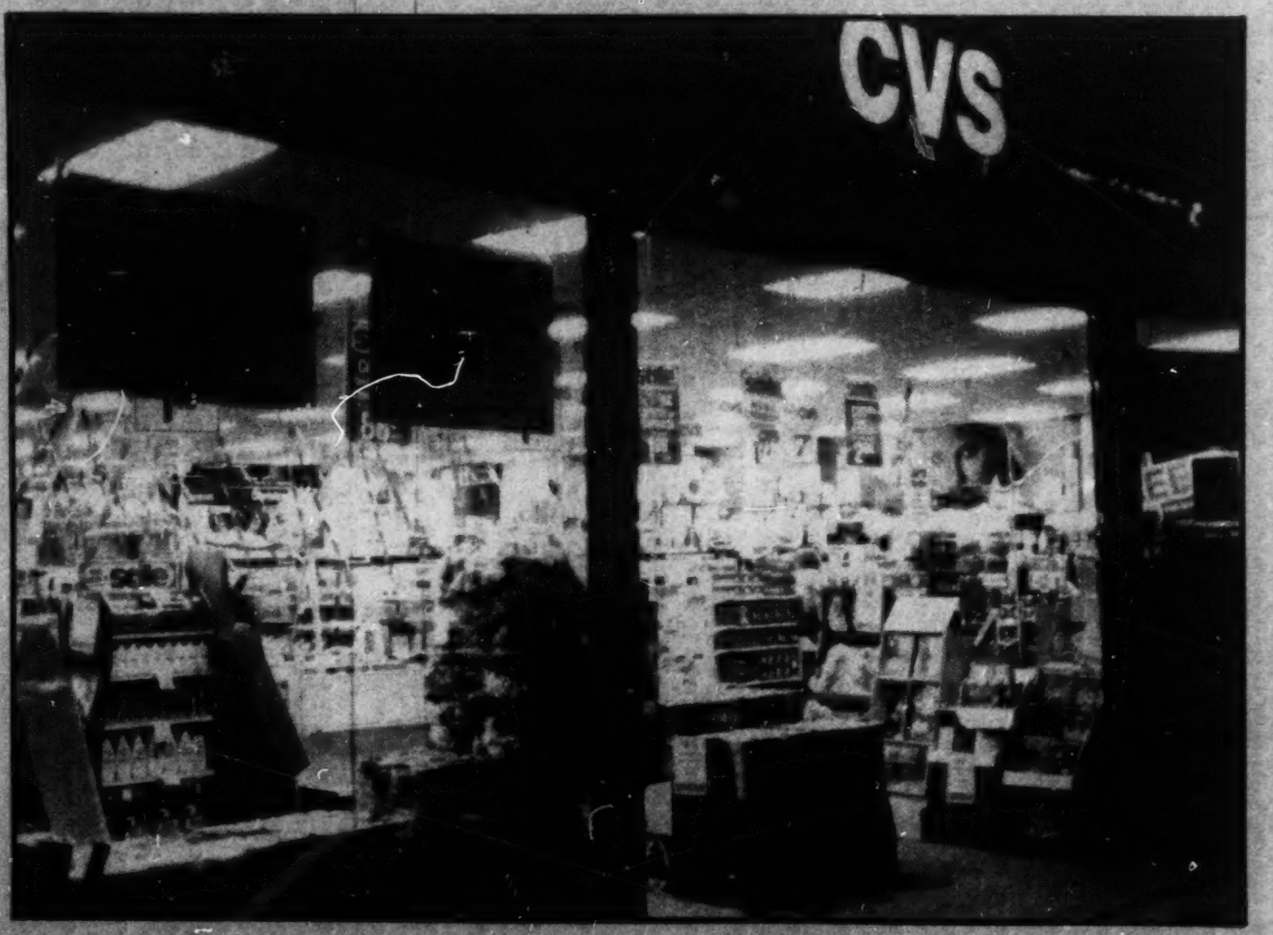
Same-store sales for theCVS chain were up 11% last year, and part of the reason is CVS' image with consumers. Shoppers say they like the ambience: wide aisles and bright, clean stores make shopping "convenient and pleasant."

CVS operating income up

(in millions of dollars)



*Includes profits from Melville's deep discount drug store chain, Freddy's and CVS' conventional drug stores
Source: CVS annual reports



CVS is out to enhance its image as a neighborhood drug store. The 634-unit chain, which has high penetration in many Northeast markets, is expanding at the rate of about 40-50 new stores a year. The emphasis is on serving "the convenience-minded" neighborhood shopper.

Chain eyes Southern California in its quest for new store sites

CVS, which last year opened approximately 45 new stores, is hoping to open another 50 in 1987.

About 15 of the new units will be in California, where CVS is in the process of building a 200,000-sq.-ft. warehouse in Rancho Cucamonga, an industrial park about 50 miles east of Los Angeles.

The chain opened its first California store about nine years ago and now has about 40 units there. Sources say CVS would like to raise that number to at least 70 "as soon as possible."

CVS is said to be looking for acquisitions, particularly in the Southern California market, but for the time being, nothing major is on the burner, sources say.

Therefore, short-term growth will probably come gradually as CVS searches for good sites for new stores and as they find one or two store acquisitions.

Because most of the chain drug stores in California are traditionally larger "super" drug stores with a broad range of products in their mix, there is probably room in the California marketplace for bantam drug stores like CVS.

Also, of course, it's clear that CVS' management wouldn't be building a 200,000-sq.-ft. warehouse in California unless they were sure they can succeed with their bantam concept in California cities.

In the next two years or so, CVS plans to add another 100,000 sq. ft. of office space to its corporate complex in Woonsocket, R.I., and within three to five years, company sources say they will hire between 300 and 500 more people to fill support positions in the complex.

terns
Knitting
Yarn Sh
EMBROIDERY

One of Pay Less' huge superstores features a complete yarn and sewing department.

Cosmetics
MAKE-UP

Pay Less plans to use savings from new tax law to provide additional clerical help in service departments, such as cosmetics.

Teamwork, computers key at Pay Less NW

Fast-growing chain topped $1 billion sales mark

WILSONVILLE, Ore. — Pay Less NW took several major strides in the past year with the help of parent K mart, a veteran management team and strong internal systems used to manage merchandising, distribution, store operations and more.

In 1986, the rapidly growing chain passed a major milestone, reaching well over $1 billion in sales. It did so with the broadest merchandise mix in the chain drug industry, and a renewed commitment to customer service and presentation. Noted chairman Ed Hart: "We offer a better selection and a better presentation of our merchandise than our competitors, and the attitude of our workers shows."

Perhaps better than most drug chains, Pay Less draws on computerized systems as effective tools in buying, moving and displaying inventory. On-line systems help build accurate sales histories of every category and adapt the mix in each store accordingly. The system worked well for the company last year, as Pay Less modified its store plan by cutting the full-line prototype size down to 27,000 sq. ft. from 30,000 sq.ft.

The reduction enabled Pay Less to save on real estate costs for new stores by making more productive use of space with tighter, computer-assisted planograms, more endcap displays and higher fixtures.

Scaled-down formats

The chain is also developing smaller store formats to fit a variety of situations, even as it backs away from plans to expand its Key Drug prototype to new markets. The smallest Pay Less prototype, now at 20,000 sq. ft. (17,000 selling), is likely to be augmented by a 10,000- to 15,000-sq.-ft. format for certain low-density and urban markets, according to senior vice president of real estate Hank Hummelt.

The smaller stores feature cutbacks on nondrug categories like sporting goods and food, but they have enabled the chain to tailor itself to markets as small as Taft, Calif., a town of 5,000 west of Bakersfield, and Mount Shasta, on even smaller community in remote north-central California.

Another big key to Pay Less' expansion plans, however, has been the development of Wonder World, a large-variety discount format, which represents a joint effort between Pay Less and its corporate parent. The first Wonder World—featuring a wide array of products including apparel, general merchandise and bulk food items—was unveiled last July in Bozeman, Mont. Additional units were opened in some dozen other former discount store locations in Colorado, New Mexico, Texas and Oklahoma. Pay Less is now studying early results.

The 40,000- to 60,000-sq.-ft. Wonder World units represent the blending of some of the best elements of three retail formats: K mart, Pay Less and Pay Less' Value Giant deep-discount vehicle. Hart noted last fall that the chain's future growth would include both the Pay Less and Wonder World formats.

Aggressive growth posture

One thing that appears certain for Pay Less is that its growth posture will remain an aggressive one. Backed by K mart's huge financial resources, the chain added roughly 40 new stores last year, ending with 218 stores in 10 states in the West and Southwest. Using its Wonder World format, Pay Less penetrated as far east as Texas and Oklahoma. That kind of geographic diversity leaves plenty of room for fill-in expansion, say its managers—especially in smaller towns neglected by many chains.

"There are still a lot of markets that have been overlooked by Wal-Mart and other competitors, and we can now go in with either a Pay Less drug store or a Wonder World," said Hart.

Pay Less is also pushing hard to get a jump on competitors in some of its biggest markets, like the San Francisco Bay area, San Jose, Sacramento and Fresno, Calif. Said one company executive, "The more good locations we can land in those markets before anyone else does, the more cost-effective our advertising and distribution."

California will remain a key part of the chain's growth plan. Pay Less has also re-entered the southernmost part of the state, with stores in Oceanside, near San Diego, and communities outside Los Angeles. Barring a major acquisition, however, the company will probably concede the Los Angeles market itself to traditional market leaders Thrifty Corp. and Osco/Sav-on.

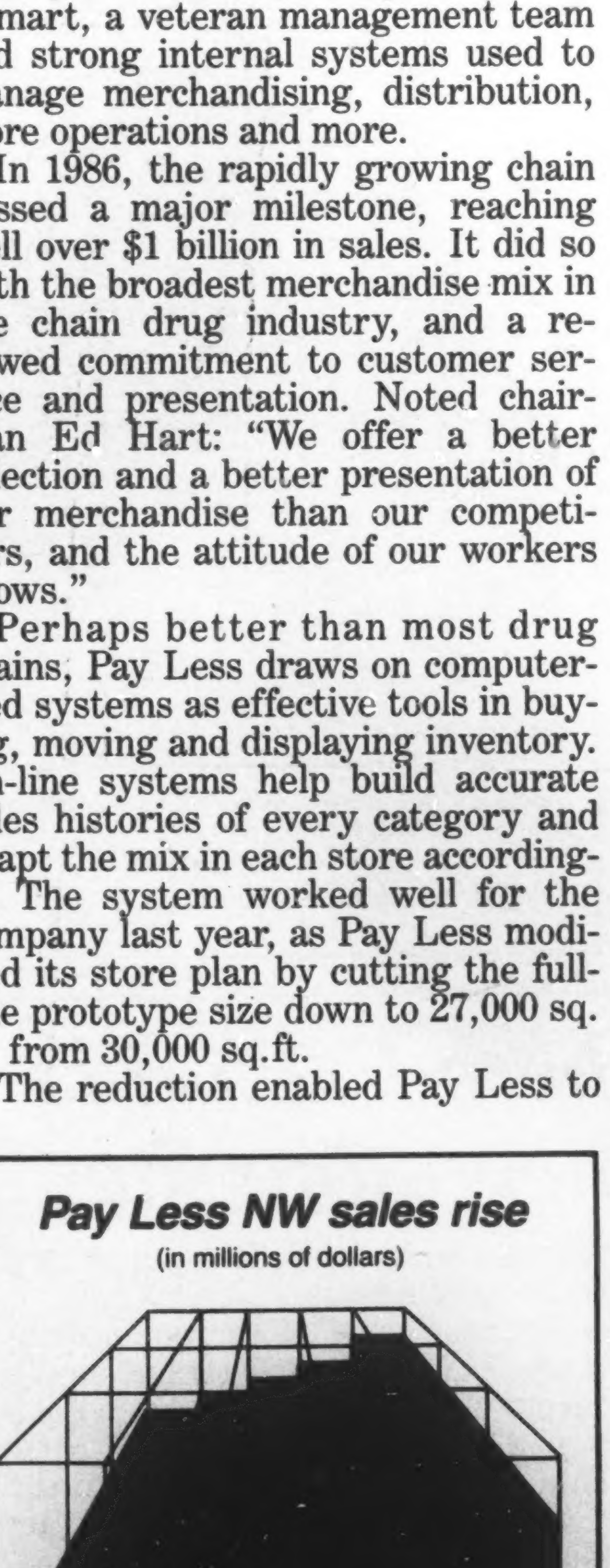
Subtle benefits of merger

Pay Less' two-year association with retail giant K mart has helped propel its push into new markets. But more subtle benefits from the merger have also been at work—most notably in the sharing of expertise in certain merchandise categories. Drawing on the know-how of several former K mart merchandisers and buyers, Pay Less has added major apparel departments in several dozen stores and will extend the program this year.

The apparel departments average 3,000 sq. ft. and feature surprisingly sophisticated arrays of casual clothing styles for men, women and children. "These aren't just token clothing sections," noted general store operations manager Jerry Kuske last fall. "We have good people from K mart now working for us in apparel, and we're going to keep our styles and fashions up-to-date and quality-oriented."

K mart and Pay Less are also sharing know-how in areas like hardware, H&BA and pharmacy.

Pay Less NW sales rise
(in millions of dollars)

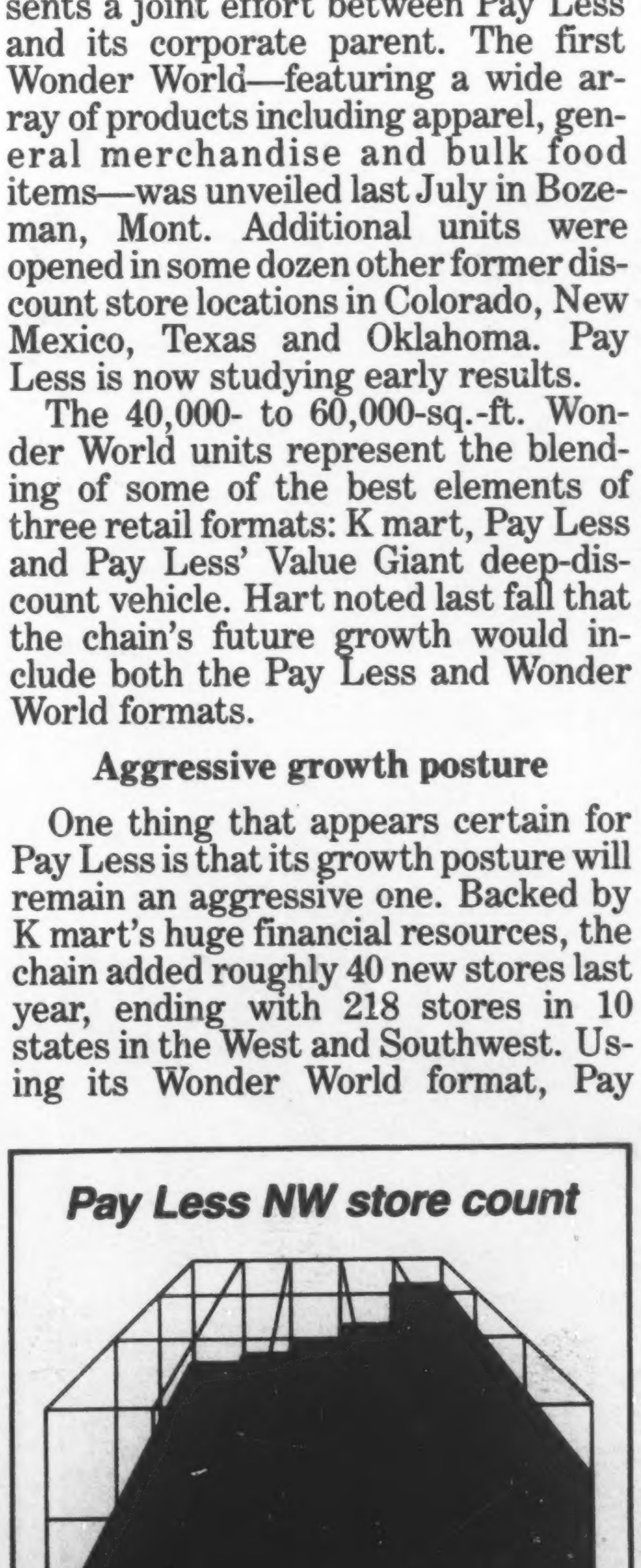


Source: Company reports
Fiscal year ended Jan. 31, 1987

Valentine's Day

Pay Less positions greeting card department up front for maximum traffic.

Pay Less NW store count



Source: Company reports

Hook SupeRx marriage streamlines operations

CINCINNATI — Kroger Co.'s move to focus its retailing priorities put the SupeRx and Hook drug store chains in the vortex of the merger and acquisitions whirlwind that swept through the industry in 1986. The nation's largest publicly held supermarket chain sold off or closed all of its 891 drug stores to concentrate on developing combination stores.

The divestiture created a new Midwest drug store company—Hook SupeRx Inc.—led by Philip Beekman, a former president of Joseph E. Seagram & Sons. Beekman and a management group of SupeRx and Hook officers bought 686 of the drug stores put on the block by Kroger.

While the Indianapolis-based Hook chain remained intact as part of HSI, Kroger sold SupeRx's far-flung network in pieces. Rite Aid bought 115 stores in Florida, Alabama and Georgia, including 106 units in promising markets throughout the Sunshine State.

Concentrate on combo units

Gerald Wolken, former Kroger drug division president, who decided not to join Beekman at HSI, bought 48 SupeRx stores from Kroger: 28 in Phoenix, SupeRx's western-most outpost; 9 in Alabama; and 10 in Georgia.

Kroger, which opened its first SupeRx store in 1962, said it wanted to concentrate on its Kroger and Dillon combination food/drug stores. It pointed out that the average combo generates $23 million a year, with the drug store side producing $3.45 million to $3.91 million of that. By comparison, the typical SupeRx generates $1.5 million in annual sales, and Hook's, $1.2 million.

The divestiture decision was helped by Kroger's concern about building its stock value at a time when supermarket companies had become chief targets for corporate raiders. The divestiture followed on the heels of the Dart Group's hostile bid for Safeway Stores Inc., which in defense accepted an offer by Kohlberg, Kravis, Roberts Inc., the investment firm.

Future lay in groceries

But even in the early 1980's, Kroger was channeling proportionately fewer capital dollars for SupeRx growth, as it became convinced that its future lay with the grocery business.

Kroger ended the 1986 year with a strong sales performance that was boosted by a new emphasis on sales of nonfoods within its superstores and combos.

If the drug division purge added to Kroger's operational health, it also seemed to infuse new energy into the SupeRx and Hook's Midwestern drug store operations, acquired by HSI.

The management group gained a compact version of the Kroger drug division, which accounted for about $1 billion in sales in 1986. The stores in Ohio, Indiana, Illinois, Kentucky, Tennessee, West Virginia and their geographical proximity should create management and operational efficiencies.

Opportunity to streamline

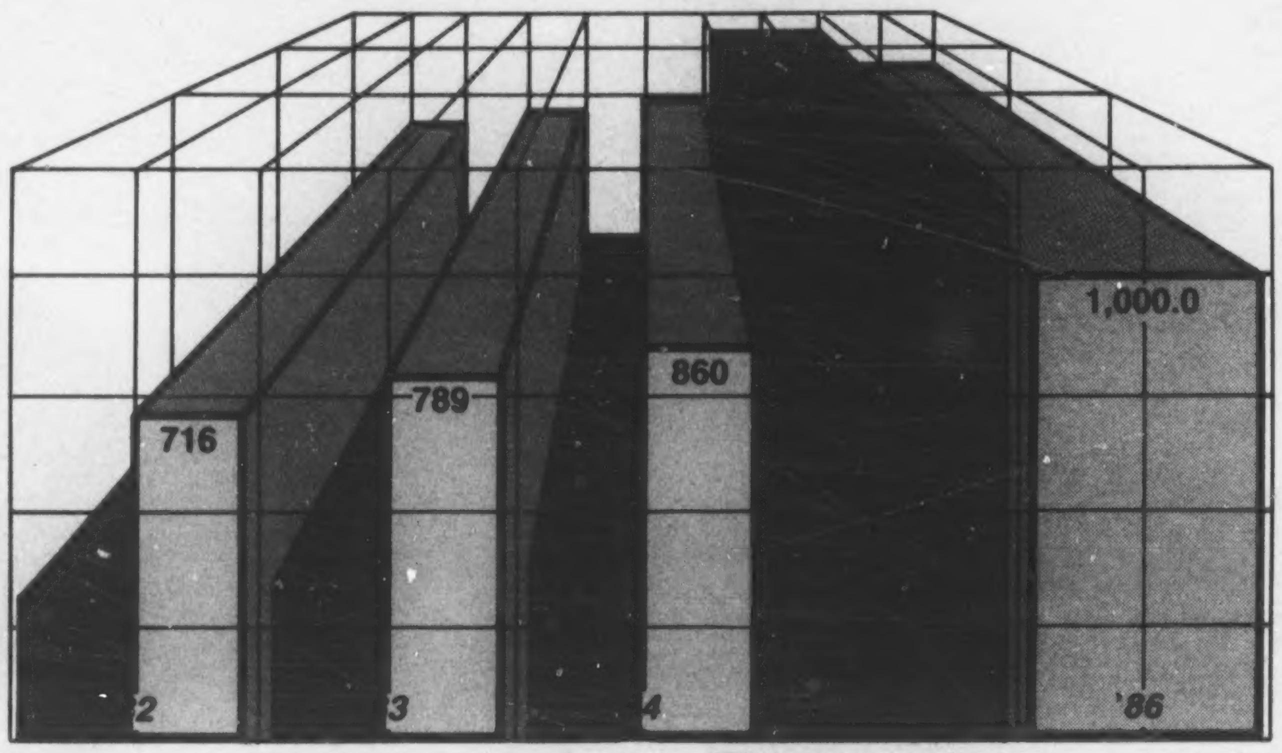
HSI inherited an opportunity to streamline the drug operations, since Hook and SupeRx were run as virtually separate companies under Kroger.

While the new management planned to continue operating the two chains on separate tracks, leaving their distinct merchandising formulas in place, it began integrating operations, starting with management.

The buyout—a $415 million deal that was capped on Dec. 9—includes 44 chain officers as equity investors, minus Wolken, and without R. Douglas Reeves, the Hook Drug chairman who had been named executive vp for Kroger drug operations in 1986. Reeves, like Wolken, decided not to join the HSI team.

A new management structure was set up for both chains. Gary Hendren, SupeRx's former vp-marketing, was named executive vp and coo for SupeRx, operating in Cincinnati. Hook executive vp Newell Hall was named executive vp and coo of Hook, headquartered in Indianapolis.

Hook SupeRx Inc. starts with $1 billion in sales
(in millions of dollars)



- ■ Hook
- ☐ SupeRx
- ■ SupeRx and Hook sales under Kroger ownership
- ▨ Hook SupeRx Inc.

*Includes 10 months of Hook sales
Source: *Drug Store News* research

Reshuffles middle management

A reshuffle of second-tier management at SupeRx cut out senior-level positions that were superfluous in the scaled-down new company. Some SupeRx regional merchandising posts were eliminated. The Hook's division followed suit by making a series of management changes designed to streamline operations.

Kroger and Goldman Sachs, the New York investment banking company, were key equity investors, each holding a 37% share. HSI also used loans from a consortium of banks, and Goldman Sachs sold high-yield bonds. HSI has set up a Sept. 1 to Aug. 31 fiscal year.

The new company acquired 335 Hook drug stores, 313 SupeRx stores, 26 Hook's convalescent aids centers and 12 Drug World deep discount stores.

Product pipeline open

Through interim agreements, HSI and Wolken's stores continued to receive product through Kroger's Peyton Group, which has been the distribution arm for Kroger in foods and nonfoods since 1980.

SupeRx continued rolling out its TEC gross profit cash register system, which automates the calculation of gross profit, as well as other functions. Developed in-house, the system was scheduled for a rollout into all stores over the next two years, replacing NCR electronic cash registers.

In 1986, SupeRx concentrated on building market share in key markets of Cincinnati and Columbus, Ohio; Nashville and Knoxville, Tenn.; and Peoria, Ill. In Nashville, the chain unveiled its first store with a race track design. The 10,665-sq.-ft. prototype employed a 6-ft.-wide inner track with short gondola runs radiating outward.

SUPER Rx DRUGS
SUPER Rx

SupeRx's first store with a race track is in the Greenhills section of Nashville.

Shortened gondola runs radiating from the 6-ft.-wide track give many departments their own homes and create endcap opportunities.

The oblong-shaped track, offset by green tile, encourages shoppers to circulate and view high-gross merchandise.

Gray Drug Fair struggles to realize its potential

Factions vie over Sherwin-Williams division

CLEVELAND — In 1986, Sherwin-Williams made a decision long expected within the chain drug industry. If finally agreed to sell its Gray Drug Fair division to two bidders: Rite Aid Corp. and a group of inside managers and investors led by Gray general manager and president Carl Bellini.

That decision culminated five years of troubled history for the 460-store drug chain under the paint and coatings giant—a history marked by disappointing earnings, unsteady sales gains, a loss of focus in its marketing efforts and a revolving door within the president's office. Thus, the change in Gray's fortunes was generally welcomed by those both inside and outside the company.

In its last two years as a single entity and a subsidiary of Sherwin-Williams, Gray's sales and earnings have staged a modest comeback, as efforts to control costs and refine the merchandise mix began to bear fruit. Operating profits in 1986 rose to about $10 million from $6.7 million in 1985 and just $82,000 in 1984. That was the strongest performance the chain turned in since 1982, when Gray posted pretax earnings of $13.9 million.

Bottom line contribution

By industry standards, however, Gray's contribution to its parent company's bottom line has remained meager. After trying for five years to find the right combination of senior management and marketing strategy, with a dizzying succession of top managers including Al Towle, Jim Mastrian, Mac Allen Culver, Fred Barney and Bellini, Sherwin-Williams finally decided to put the drug chain on the open market last summer. In doing so, it abandoned its patient strategy of trying to nurture Gray back to robust vitality, opting instead to concentrate on its core paint and coatings business.

Sherwin-Williams chairman John Breen had earlier conceded that Gray's problems were more intractable than the company had foreseen. Those problems included costly and inefficient distribution patterns, out-of-stocks, poor management of inventories and of gross margins, shrinkage and a lack of quality inventory movement information.

Gray Drug Fair operating profits

(in thousands of dollars)

*Estimate
Fiscal year ended Dec. 31, 1986
Source: Sherwin-Williams reports

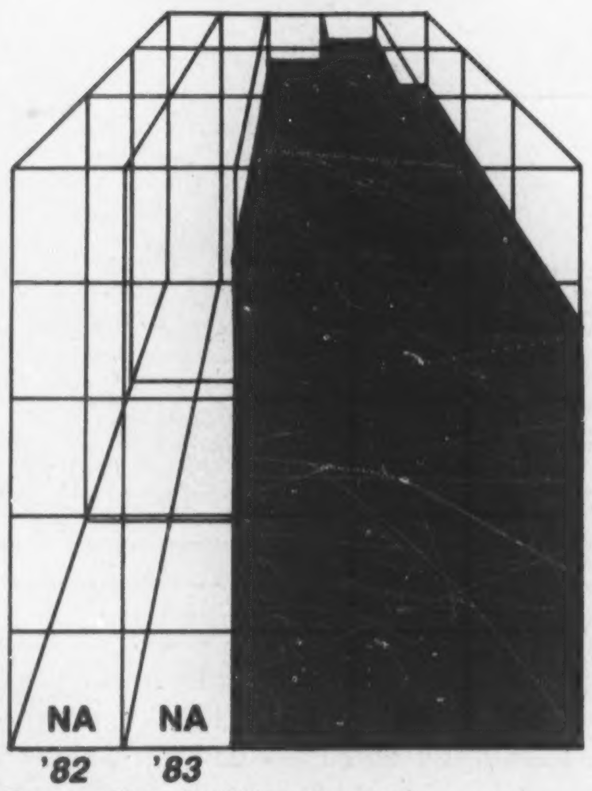
In addition, Gray was plagued by highly competitive conditions in most of its markets, against chain drug powerhouses like Walgreens, Revco, Rite Aid, Peoples and Eckerd Drug.

Over the years, Sherwin-Williams has tried a wide range of responses to get the drug chain back on track, with mixed results. Besides rotating Gray's leadership often—no one since the acquisition has served as president of the chain longer than Al Towle's two years—the parent company has poured millions into store expansion and improvements in attempts to shore up market share in Gray's three divisions in Florida, Ohio and the mid-Atlantic region.

Merchandise mix evolved

Gray's merchandise mix has also undergone continual evolution as its leaders sought to broaden the business with more high-margin, nondrug categories and more promotional items. Circular advertising was increased, and attempts were made to make Gray and Drug Fair stores more price-competitive in high-density markets. Meanwhile, Gray abandoned a short-lived experiment with deep-discount retailing last year, closing its single Price-King off-price drug store.

Gray Drug Fair store count



Source: Sherwin-Williams reports

To cut costs further, Gray also consolidated its two Florida distribution centers last year into a single, 150,000-sq.-ft. facility. Prior to the chain's breakup, it moved about 75% of store merchandise through its three regional distribution centers in Florida, Ohio and the mid-Atlantic region.

None of Gray's efforts, however, were enough to convince Sherwin-Williams to remain in the chain drug business. Its decision last July to seek a buyer for the chain was a strategic move, noted chairman John Breen, which "better serves our interest.

"We'll concentrate on our coatings and coatings-related business as opposed to deploying our resources into two legs of business," Breen said at the time.

The move was praised by analysts, but Sherwin-Williams could hardly have picked a more inopportune time to put 460 drug stores on the market. At roughly the same time, the Kroger Co. put its 891 SupeRx and Hook drug stores up for sale, creating a flood of buying opportunities for the few buyers able to finance major acquisitions last year.

The issue wasn't resolved until the end of the year. In December, Sherwin-Williams announced that it had come to terms with Rite Aid for the sale of Gray's 81 Florida stores and 22 Drug Fair units in Baltimore, at a price tag estimated at about $500,000 per store. The bulk of the chain, including 358 Gray and Drug Fair stores in Ohio and the mid-Atlantic states, was offered to the Bellini group following a protracted bidding war between Bellini and former president Towle.

LBO bid in doubt

Bellini's successful bid to take Gray private, however, still hinges on his ability to raise the estimated $100 million to $150 million needed to finance a leveraged buyout. To concentrate fully on those efforts, Bellini again stepped aside as head of the drug chain in March, in favor of new acting president Jim Mastrian, who headed the chain in 1985 and early last year.

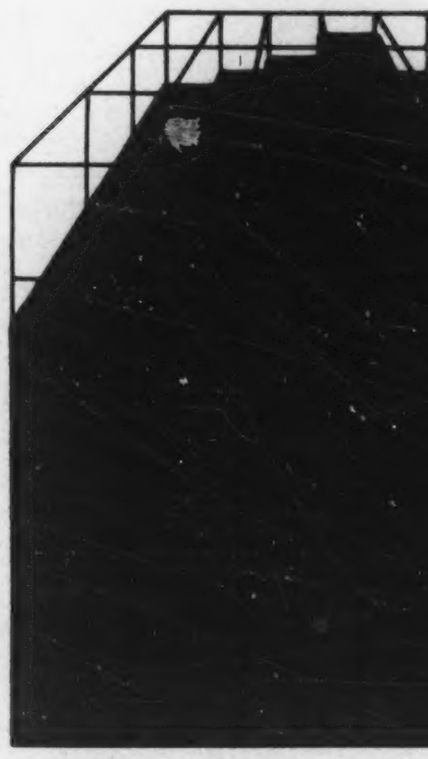
Bellini, who has served as interim president of Gray on and off since 1983, was originally scheduled to finalize the deal early this spring, according to Sherwin-Williams. He has reportedly been working with Citibank and the New York-based Trump Group to come up with a buyout package.

The ability of the Bellini group to raise the necessary financing, however, remains in doubt. Meanwhile, other groups are rumored to be interested in the stores, including The Trump Group, which holds a 50% stake in Pay 'n Save's drug store division, and former Peoples Drug Stores chairman Sheldon "Bud" Fantle, until recently a Gray competitor.

Former president Al Towle, whose bid for Gray was initially rejected in favor of Bellini, has also expressed a continued interest in the chain. Towle said early this year that his bid "is on the table" while Sherwin-Williams gives Bellini time to finalize the deal. The veteran retailer told *Drug Store News* in late March he is still seeking control of Gray.

Gray Drug Fair sales slide

(in millions of dollars)



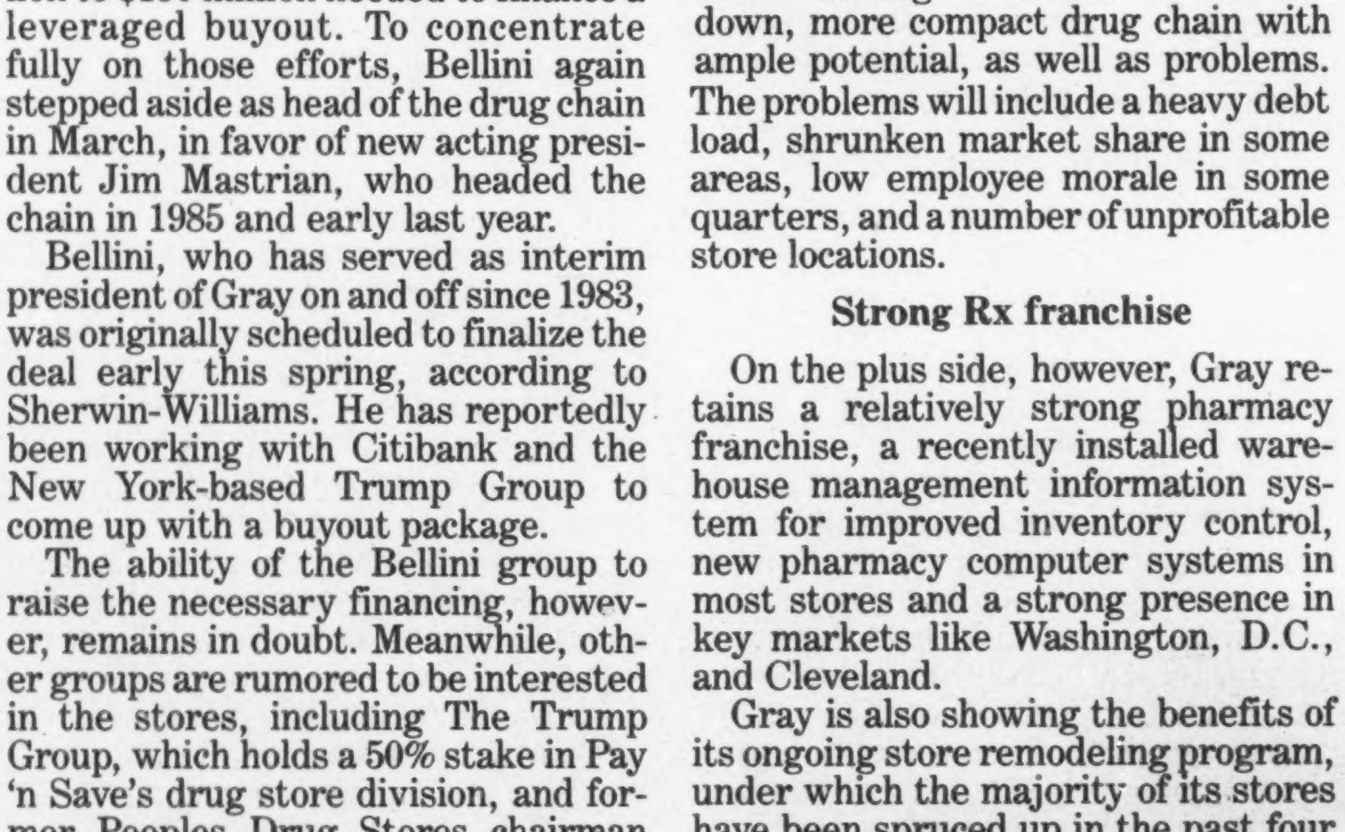
*Estimate
Fiscal year ended Dec. 31, 1986
Source: Sherwin-Williams reports

Whatever party emerges victorious in the bidding will inherit a slimmed-down, more compact drug chain with ample potential, as well as problems. The problems will include a heavy debt load, shrunken market share in some areas, low employee morale in some quarters, and a number of unprofitable store locations.

Strong Rx franchise

On the plus side, however, Gray retains a relatively strong pharmacy franchise, a recently installed warehouse management information system for improved inventory control, new pharmacy computer systems in most stores and a strong presence in key markets like Washington, D.C., and Cleveland.

Gray is also showing the benefits of its ongoing store remodeling program, under which the majority of its stores have been spruced up in the past four years. That process has been tied to new advertising themes and new merchandising and shelf management efforts designed to enhance the image of Gray and Drug Fair stores as "convenient, service-oriented and price-competitive stores to shop for basic drug store merchandise," in the words of Sherwin-Williams' annual report.



Gray improved operating profits in 1986 by 50%, but the 460-store drug chain is being divested by its parent anyway. The gains raised its marketability.

Pay 'n Save sets about putting house in order

SEATTLE — Pay 'n Save staged a mini-turnaround in the first quarter of the new fiscal year.

Following a disastrous 1986, when Pay 'n Save, one of the Northwest's dominant drug store retailers, posted a loss of $49 million, any bottom-line improvement would have been welcome.

And indeed, Pay 'n Save barely inched its way into the black, with $279,000 in first-quarter net earnings, or a mere 1¢ a share, on sales of $199.6 million.

On an operating income basis, however, the chain did much better. Its operating profit was $8.4 million. But that was almost wiped out by interest expenses of $8.1 million.

In last year's first quarter, Pay 'n Save registered a loss of $1.9 million, or 14¢ a share, on sales of $142.4 million. The company pointed out, however, that the results of the two quarters were not comparable, since the most recent period included sales and earnings from Bi-Mart, which wasn't acquired until the middle of last year. Pay 'n Save used capital obtained from a public stock and bond offering to acquire the 33-store membership discount chain for $84 million.

Comparable-store sales off

On a down note, comparable-store sales, including those recorded by Bi-Mart, were off 4% for the quarter. But Gerald Nathanson, vice chairman and ceo, said that the sales slippage was more than offset by the chain's gross margin improvement.

Boosting margins has been a key strand in Pay 'n Save's strategy since Bill Zimmerman, the Pic 'n Save founder and former chief strategist, was brought in as chairman and equity partner by Pay 'n Save's principal owners, Julius and Eddie Trump.

Zimmerman's scheme was to transplant the buying strategies that had worked so well for him in California to the Pacific Northwest.

What Zimmerman had done at Pic 'n Save was to build a network of sources for merchandise closeouts, overruns and imports. The cost of goods was so low that even after pricing them well below other retailers, they still generated margins of 40% and better.

Strategy backfires

But the strategy backfired at Pay 'n Save, whose customers were used to a certain panache from their favorite drug store chain. They resented the cheap goods that were brought in and displayed on a series of promotional tables located in a large space carved out of the "heart of the store." Complaints poured in by the hundreds.

Nathanson's appearance on the scene in October as the new vice chairman and ceo (following the departure of Mac Allen Culver) signaled that the company had given up on trying to duplicate Zimmerman's experience with Pic 'n Save.

Nathanson's mission was to build a new executive team; take the best of Zimmerman's strategies and graft them onto Pay 'n Save's traditional strengths in pharmacy, H&BA and general merchandise; improve operations and especially the limping distribution system; polish up both the look of the stores and the morale of employees; and finally, prepare for measured growth in the company's strongest markets.

The whole job seemed straight out of "Mission Impossible." But it appeared made to order for Nathanson, the former McCrory exec who's an agreeable blend of "can-do" optimism and Oriental market salesmanship.

Assembles 'own team'

One of his first jobs was to put together his own team, which he has done. It's a mixture of Pay 'n Save holdovers and retailing veterans from other companies. The emphasis is on merchants. Nathanson wanted a team that would be able to put the stores' product mix under a microscope, and, item by item, evaluate the productivity of everything from private-label to checkstand merchandise.

There were other, even more radical changes in the period following Nathanson's appointment as chief executive.

Most important, Pay 'n Save admitted it had made the most egregious error any retailer can make: It seriously misjudged its customers' tastes.

The public mea culpa was followed by complete revamping of the product mix. The low-end junk was taken out (400,000 plastic key chains were given away at the checkstands).

Zimmerman's central strategy remained, but the emphasis was shifted to quality, as well as value.

Fewer promo items

The "heart of store" layout, with its squadron of promotional tables dominating the central core of the selling area, was dropped. In its place, the chain brought back the more traditional front-to-back drug store look.

A much smaller number of promotional tables were positioned on a 15-ft.-wide inner race track. It was termed a race track format, but in fact it seemed more like a throwback to the old Pay 'n Save layout.

Nathanson put a high priority on shaping up the chain's distribution system (or *non*distribution system as it seemed in the chaotic summer and fall months last year). The chain avoided an absolute debacle during the Christmas selling season by forcing merchandise into the stores and scarcely keeping track of product movement and inventory control.

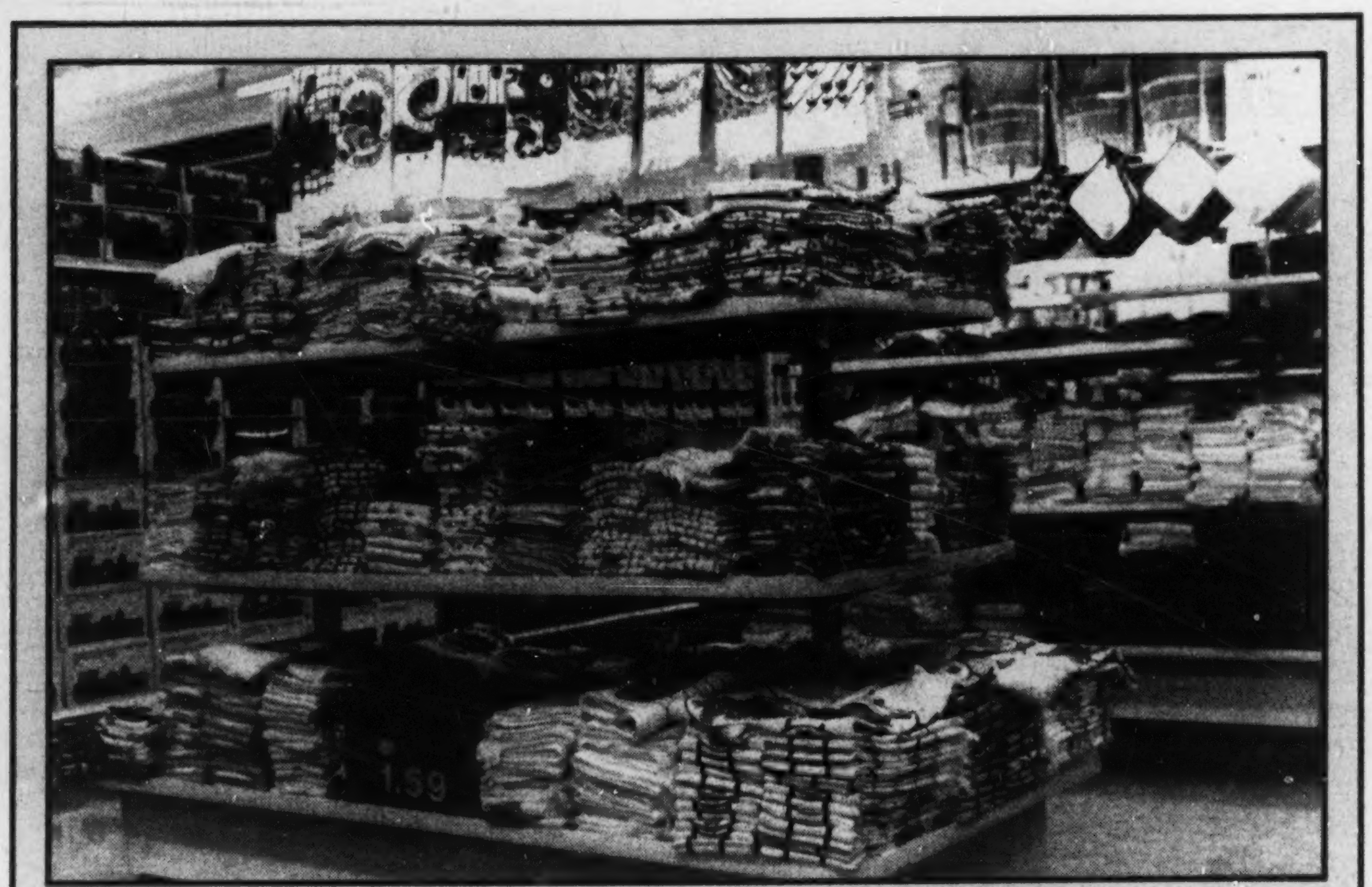
By the end of the year, Nathanson wants to begin construction on a new addition to the chain's Auburn, Wash., distribution center and end the reliance on leased facilities.

An increase in distribution center capacity will also allow the company to raise the percentage of goods purchased directly from manufacturers and thereby lower acquisitions costs.

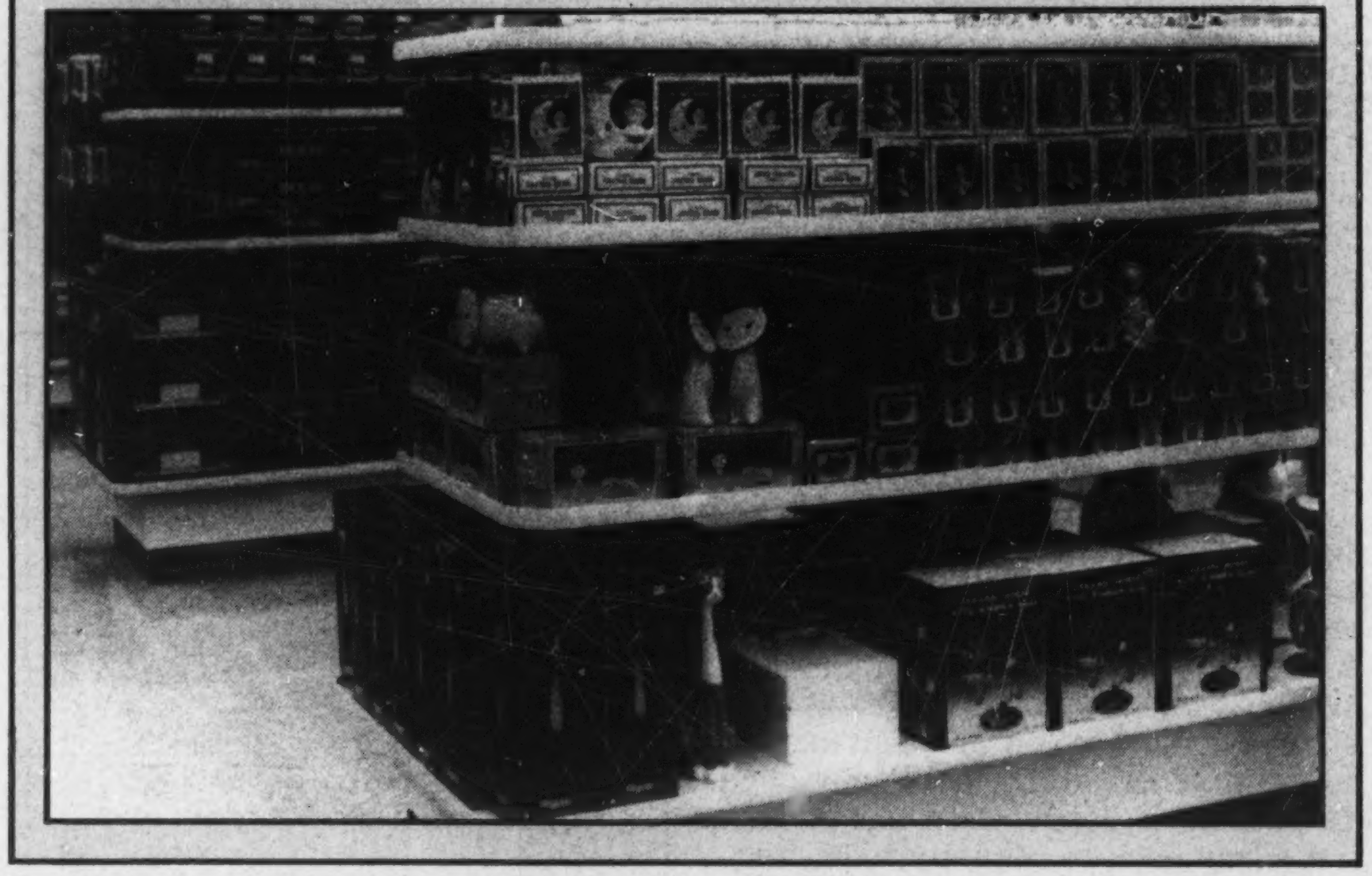
New plans

Nathanson has other plans for the chain, including:

- Getting into mail-order pharmacy, as other chains are beginning to do. At the same time, he wants to improve in-store pharmacy sales, which currently run about $800,000 a store. He plans to do this by using a heavier TV ad schedule to enhance the chain's image as a prescription center.
- Bolstering the chain's private-label program, not necessarily by increasing the number of sku's—now about 400—but by emphasizing quality comparable to the brands.
- Testing new retail categories, including video movie rentals, which are being tried in one Washington store.
- Closing unproductive stores in order to redeploy assets. Six stores were closed after the most recent quarter—three in Montana, two in Wyoming and one in Alaska. Bi-Mart will have a high priority in this year's growth plans, with four stores slated. At the close of the quarter, there were 107 Pay 'n Save stores and 33 Bi-Marts in operation.



Pay 'n Save threw out much of the low-end Zimmerman imported and closeout merchandise after customers complained about "junk" being offered in their stores. The chain retained, however, imported domestics (above) as well as other, more upscale promotional items like these figurines shown below. Pay 'n Save uses promotional tables in its new race track format to highlight these high-margin goods.



	Pay 'n Save [illegible] and Bi-Mart					
	Before Seattle Standard acquisition			After SSC acquisition	The company consolidated*	The company consolidated**
Pay 'n Save	$416,021	$467,231	$326,593	$523,012	$489,724	$489,724
Bi-Mart	186,958	207,[illegible]90	148,676	232,313	234,453	65,374
Combined	—	—	—	—	724,177	555,098
	FY ended 1/29/83	FY ended 1/28/84	1/29/84 to 10/12/84	FY ended 11/2/85	FY ended 11/1/86	FY ended 11/1/86

Fay's DRUGS
BREAD 55¢
STORE HOURS

Fay's strong prescription traffic in rural units such as this Cicero, N.Y., store proved a stabilizing factor, when sales of general merchandise were slow in 1986.

Fay's creates a recessed cosmetics boutique environment near the entrance of Cicero, N.Y., store.

Fay's makes '87 fiscal rebound by cutting costs

LIVERPOOL, N.Y. — Fay's used marketing strategies and cost cutting moves to restore its profit momentum in the 1987 fiscal year, which ended Jan. 31.

After starting the year with its first quarterly loss since 1974—a $1.1 million earnings shortfall—Fay's built profits by widening its margins to historical levels and slowing the rate of new store growth. It ended the year with net earnings of $4.09 million, up 47% from the 12 months of fiscal 1986. Sales increased about 2%, to $452 million.

Fiscal 1986 had seen earnings reduced sharply because of squeezed profit margins in upstate New York markets, lower consumer demand for general merchandise and the costs stemming from an aggressive store opening schedule.

Earnings before taxes for 1987 gave a better indication of the dramatic profit growth the chain was able to achieve in the year's last nine months: They were $6.8 million for the year, 150% higher than 1986's $2.7 million.

Management departures

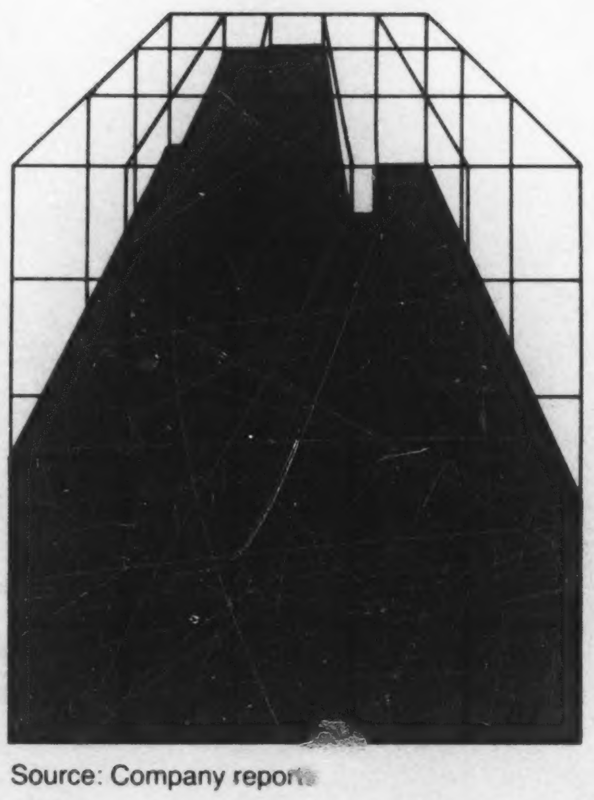
While the fiscal rebound was under way, Fay's management structure was shaken in January by the departure of three top officers, including president Daniel Herrmann, who resigned after a 26-year career with the chain. Also tendering resignations were cfo Peter Rhodes and Bruce Berg, vp-store operations.

Chairman Henry Panasci Jr. said that he would take on the president's duties for the near future. Sources said the chain should be naming a new cfo by the May annual meeting.

Fay's gross margin for the year was 27.84%, compared with 23.7% in 1986, when the chain deepened price cuts on advertised specials and lowered everyday prices on more than 8,000 items to compete in its key markets. The discounting posture was most prominent in Rochester, N.Y., where Fay's clashed with Wegman's. The supermarket chain controls about 60% of the food market, with its super combo format (with pharmacy) and deep discounted H&BA.

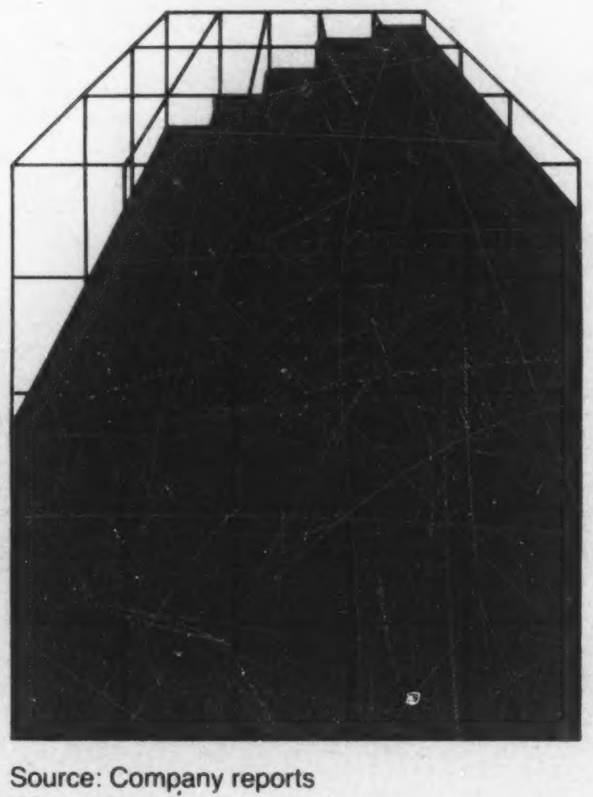
Fay's decided during the year to hike its prices back up to their traditional notches. "We declared victory and went home," noted a Fay's source.

Fay's earnings rebound 47%
(in millions of dollars)



Source: Company reports

Fay's sales growth rate slows
(in millions of dollars)



Source: Company reports
*Year ended Jan. 31.

Cut promo merchandise

To help raise the overall gross margin, Fay's cut back on the volume of promotional merchandise—in particular, high-cube general merchandise. In the third quarter, Panasci reported that the volume done on ad was 14%, against 19% in the comparable period a year earlier. The gross margin on advertised items was boosted to 10.5% in the quarter, from the 6.5% of the previous year's three months.

Fay's prescription business continued to post strong gains. The chain filled 8.3 million prescriptions in the 1987 fiscal year, compared with 7.47 million in 1986. Fay's said stores were averaging 1,100 scripts filled per week.

Before profits stabilized, Fay's had been mired in a five-quarter earnings slump that was caused in large part by its rapid store growth program of recent years. Fay's has rolled out about 20 stores a year, increasing unit count by about 20% annually. The heavy growth created a large stock of stores too new to be profitable.

In the year's first quarter, 41% of Fay's 159 stores (including Paper Cutter stationery stores and Wheels auto parts units) were under three years old. The drug stores take three years to break even.

"However," Panasci told shareholders at the May annual meeting, "these new units, when compared to our older, mature stores, have historically shown the most rapid increase in sales growth after reaching profitability.

"It is also sales growth of these incremental units which will have the greatest impact in lowering expenditures per gross profit dollar in respect to advertising, supervision and distribution," Panasci added.

Cost cutting measures

Fay's launched such cost cutting measures as freezes on management hiring and wages. Inventory was reduced $100,000 per store, netting a cost savings of $13 million chainwide.

During the year, Fay's opened a 300,000-sq.-ft. addition to its distribution center here. The addition more than doubles DC footage, helps eliminate warehouse rental costs incurred at other sites and improves handling of the promotional merchandise on which Fay's relies to carve a distinctive identity against drug competitors.

Fay's achieves 20% of its volume through sales of aggressively promoted general merchandise, such as these garden hoses in its Cicero, N.Y., super drug store.

Fay's planned to cut back its capital spending and unit growth. Capital outlays were targeted at $10 million to $15 million for the next few years, compared with the $20 million-plus of recent years.

In fiscal 1986, it had opened 20 super drug stores, six Wheels and three Paper Cutters. In 1987 it opened 11 drug stores, ending the year with 155 drug units. Fay's added two Wheels, making 13, and its fifth Paper Cutter.

Plans for '88

Plans for 1988 include a major push in the Paper Cutter stationery stores, which offer stationery and home office supplies to small offices and businesses at 30% to 40% below the cost the customers would pay at traditional office supply houses. Fay's is opening six Paper Cutters in the year and will add three Wheels.

Ten drug stores will be added in 1988 in existing markets in northeastern Pennsylvania, western Massachusetts and the Hudson Valley in New York. Fay's goal is 270 stores by 1990, a chain source said.

Going into the new year with margins restored, Fay's plans to hold margins and concentrate on building sales back to historic levels.

Perry cuts unit growth in effort to lift profits

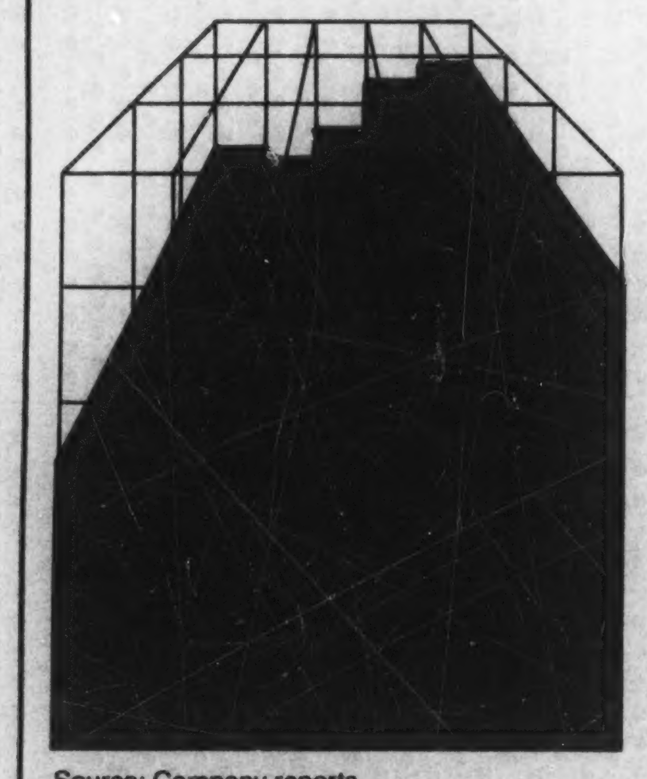
PONTIAC, Mich. — Fiscal 1986 was a tough year for Perry Drug Stores—more so in light of the company's stellar performance and blistering expansion pace in recent years.

Net earnings fell 39% last year, in part because the cost of expansion and acquisitions finally caught up with Perry's earnings momentum in the form of high interest expenses. Higher costs for insurance and employee benefits, the loss of investment tax credits under the new tax reform act and competitive conditions in its auto parts division were also to blame.

Sales for Perry's three operating divisions totaled $648 million last year, rising 24%, but net income slid to $5.9 million from $9.6 million the previous year. Much of the additional revenue came from the 12 drug stores and 50 auto parts stores Perry opened or acquired during the year, but same-store sales, aided by a rejuvenated merchandise mix, also rose a healthy 7%.

Sales in Perry's drug store division rose 27%, to $487 million. Automotives sales last year stood at $145 million, while revenues in the health care arm, including ComfortCare home-health-care centers and its surgical-supply business, reached $16 million.

Perry store count



Source: Company reports

The disappointing earnings trend continued to show the impact of heavy costs and competitive pressures in the first quarter of fiscal 1987. Although sales continued their upward pace, net income shrank to $1.3 million, compared with $3.7 million the previous year.

Response to problem

Perry has responded to the problem in a variety of ways, some of them basic to its way of doing business. It has scaled back expansion plans for 1987, with another 12 drug stores and 40-odd auto parts outlets now on the drawing boards.

Those numbers, while considerable, are a far cry from Perry's aggressively expansive approach two years ago and reflect a continuing cutback in new-store outlays. After expanding at the rate of about 40% in new-store growth in 1985, the chain's expansion rate shrank to 17% last year. Its growth plans this year call for about a 12% addition to its store base.

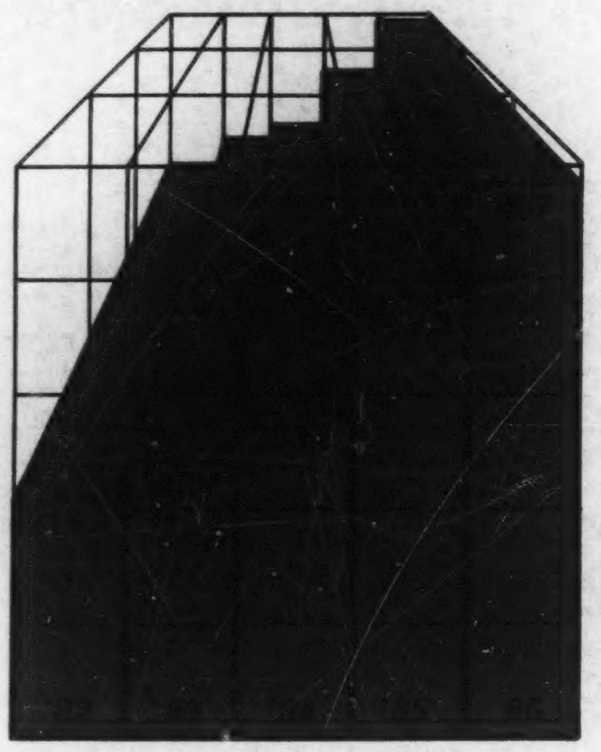
Perry has also scaled back on plans for a birthday bash this year to celebrate and promote its 30th year in business and has begun moves to cut administrative expenses and costly employee health and liability plans. Some of its considerable debt load has also been restructured to prop up the sagging bottom line.

'Frugal fiscal policy'

"For 1987, we have initiated a very frugal fiscal policy, instituting stringent budget controls in many areas," noted chairman and president Jack Robinson. "It will be a year in which we emphasize that, 'We will do it better but for less.'"

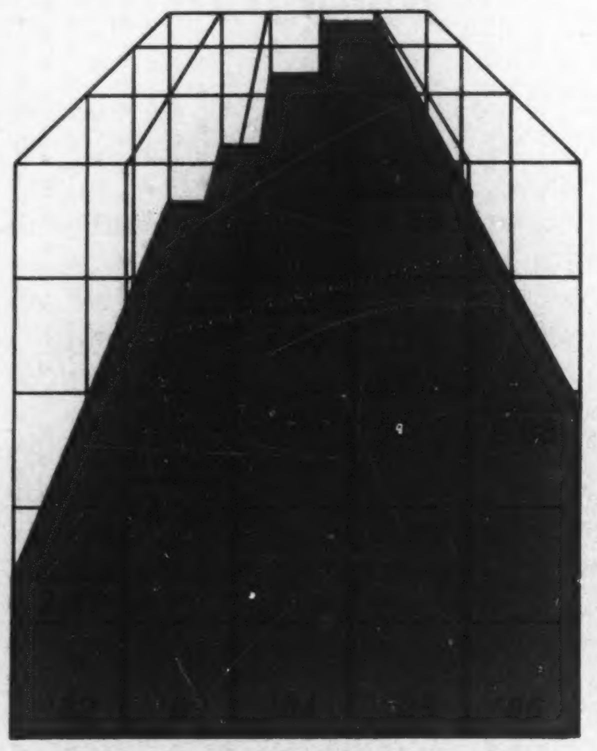
Administrative costs should also be reduced when Perry consolidates its corporate operations—now spread over five locations miles apart—into a single new headquarters center in downtown Pontiac.

Perry sales surge
(in millions of dollars)



Source: Company reports
Fiscal year ended Oct. 31, 1986

Perry net earnings drop
(in millions of dollars)



Source: Company reports
Fiscal year ended Oct. 31, 1986

Perhaps the most significant shift the company is making, however, is in the area of marketing and merchandising. Last year, the chain began refocusing its merchandise mix by emphasizing a more basic, drug store-oriented approach. OTC drugs, H&BAs and other core categories were strengthened, and some general merchandise categories—including marine supplies, sporting goods, live pets and plumbing supplies—were scrapped.

The chain's drug store division also began to distance itself from its old association with auto supplies and home center products. Perry is no longer building drug/auto/home center stores and in some cases has begun to put up walls in some of the 54 such outlets to make them side-by-side stores.

"Some of the merchandise we were selling in our stores had no business being in a drug store," noted one Perry employee. "I'm talking about outboard motors, boats and other big-ticket items that took up a lot of space and turned a few times a year, at best. Getting out ot those areas was the right move for us."

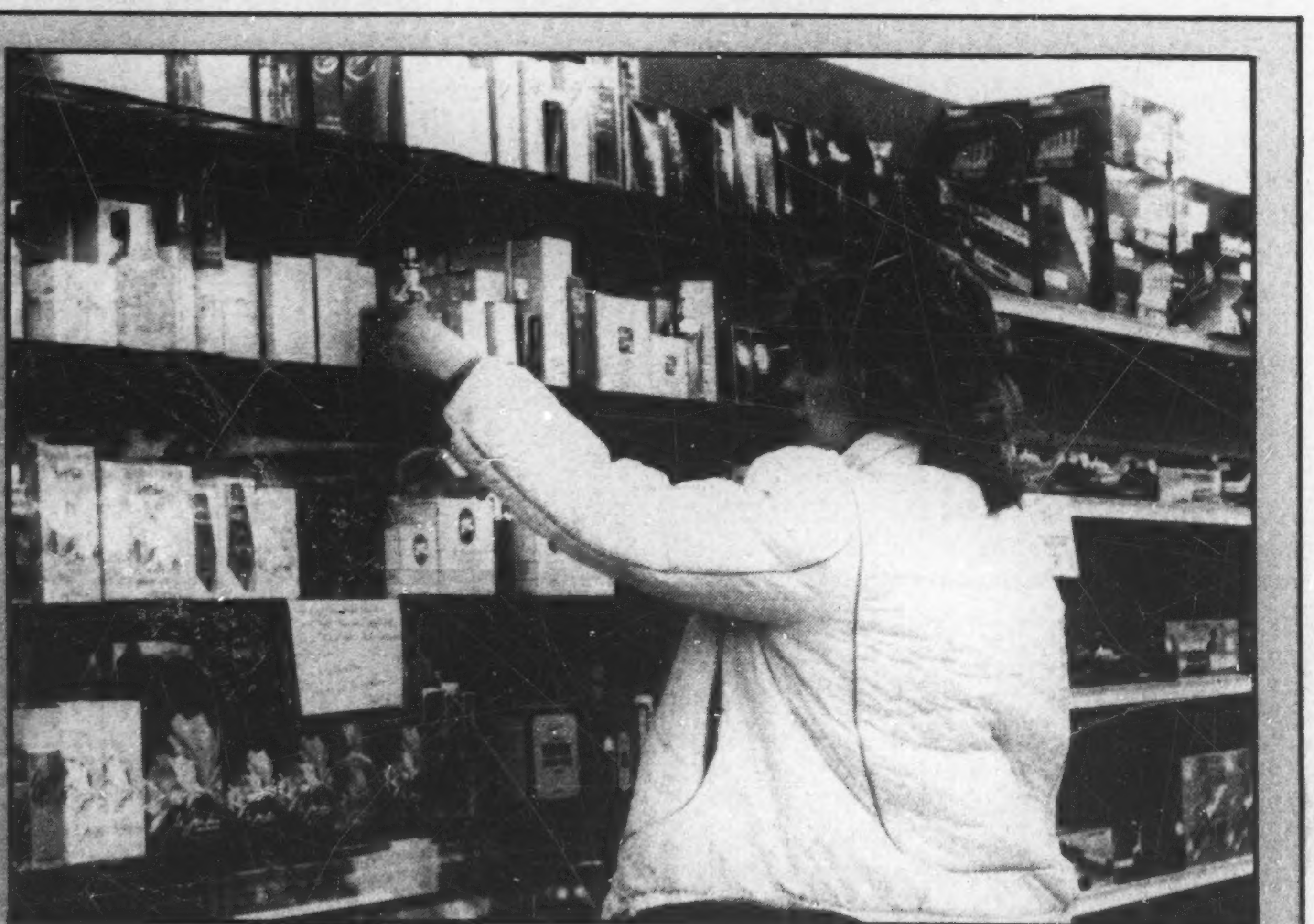
The shift in focus has been an outgrowth of a more deliberate, market-oriented approach undertaken by the drug chain over the past year-and-a-half. Renewal of the drug store basics, including its health care and convenience image—and greater attention to customer service—followed an extensive customer and market survey conducted on Perry's behalf last year.

In December, Perry took another major step in that direction by hiring entrepreneur and former Osco Drug veteran Betsy Burton as vp-marketing. Burton is responsible for coordinating the efforts of Perry's merchandising and advertising teams to achieve a more unified, market-oriented approach. She was also instrumental in the reorganization of the merchandising department into buyers and inventory specialists earlier this year.

December also saw another big personnel change, when coo Don Fox, a 27-year company veteran, resigned to pursue other interests.

With profitability now the prime focus of its attention, Perry has no plans to expand into new business and no current plans to move outside its eight-state market area in the Midwest and Ohio Valley. "We will remain in the three [businesses] we know best—drug stores, auto parts and health care," said Robinson.

At A. L. Price, shoppers are exposed to high-impulse alcoholic beverages several times during a visit because the display runs perpendicular to the store's gondolas.



Fragrances are self-service and eye-level at Perry, which sets them near personal care appliances to convey a more complete grooming statement to shoppers.

Higher profits emerge at Genovese

Inventory and cost controls, new stores will be '87 focus

MELVILLE, N.Y. — Genovese Drug Stores, with its comeback year complete, is focusing on tighter inventory controls, cost containment and scanning tests. It also hopes to raise shares in existing metro and suburban New York markets, thanks to a slightly more aggressive new store, remodeling and expansion program.

While earnings didn't rebound fully to the record level of two years ago, the fiscal year ended Jan. 31 halted a precipitous slide in net income that might have made the company vulnerable to a hostile takeover attempt if it continued.

That's why Genovese, while taking initial steps to right its fiscal performance in early 1986, also adopted a takeover defense plan at its annual meeting last June. Treasurer Jerry Stengel said then that "Genovese won't be taken against its will. We don't want greenmail or a takeover struggle. We want to run the business smoothly."

Steady growth

And that's exactly what happened in this latest fiscal year, despite the departure of its president, Pat Edwards. Chairman Leonard Genovese assumed the additional role, which he held before.

Steady sales and profits growth each quarter produced a turnaround 12 months in which sales grew 16.1% in a noninflationary environment, and operating earnings tripled. Same-store sales rose in the double digits.

Sales for the year grew to $270.8 million from $233.2 million. Operating profits soared to $6 million from $2 million in the prior year.

Net income was $2 million, compared with $2.9 million last year, but last year's net included $2.8 million from the sale of eight Connecticut stores and land to Fay's.

Distribution gains were key to performance improvements and will play a primary role next year as well. Tighter operations at the 20-month-old 155,000-sq.-ft. distribution center (DC) enabled Genovese to raise its nonstore-door share of goods from 40% to 60% currently.

DC plans

The chain will most likely exercise its option in March 1988 to purchase the DC it now leases plus an adjoining 100,000-sq.-ft. facility that is linked by a two-loop receiving and staging area, said vp-marketing Donald Gross.

The extra space and better layout will allow for greater buying and handling efficiencies and enable Genovese to handle as much as 75% of merchandise through the DCs eventually. This will help to further escalate turns and improve cash flow.

The impact of the DC has been felt in all departments, but especially in health and beauty aids, which Genovese stresses second only to pharmacy.

The merchandising focus at Genovese continues to be brand names in a discount environment. Still, the 83-store chain is looking to bring private label up to a 2%-2.5% share of sales, "but no more than that," said Gross. "We're changing our reporting to include private-label vitamins in that figure, which brings us to just about where we want to be."

The private-label effort was revamped by early 1986 to raise the assortment to 400 sku's and create a consistent packaging look for all store brand items regardless of category.

High store brand margins help Genovese to cope with its aggressive pricing policy against Rockbottom, Pathmark and Austin Drugs.

Circle of Value

The most visible part of that pricing strategy is the Genovese Circle of Value year-round program. It involves the promotion of 250 items, largely H&BA and cosmetics, for three to four weeks, then a shift to another 250 items for the following three- to four-week period, with some of the same sku's staying at marked-down prices.

Judging by the chain's vastly improved operating profitability this past fiscal year, Genovese has been able to maintain margins while growing sales in many core drug store departments. Pharmacy grew 24%, H&BA and cosmetics were "very strong" and candy, greeting cards and stationery were the next strongest gainers, said Gross.

The emphasis on these core categories will be carried through all stores, even those being developed in smaller formats, Gross told *Drug Store News*.

Genovese, which added just four stores in the last fiscal year, opened another four last month and plans a total of six to eight in this current fiscal year.

New directions

Stores opened in March mark two new directions for the chain. One, in Albertson, N.Y., is the first to be equipped with scanning. Also, that store and another in Williston Park are just 1½ miles apart, a distance that shaves both trading areas pretty thin.

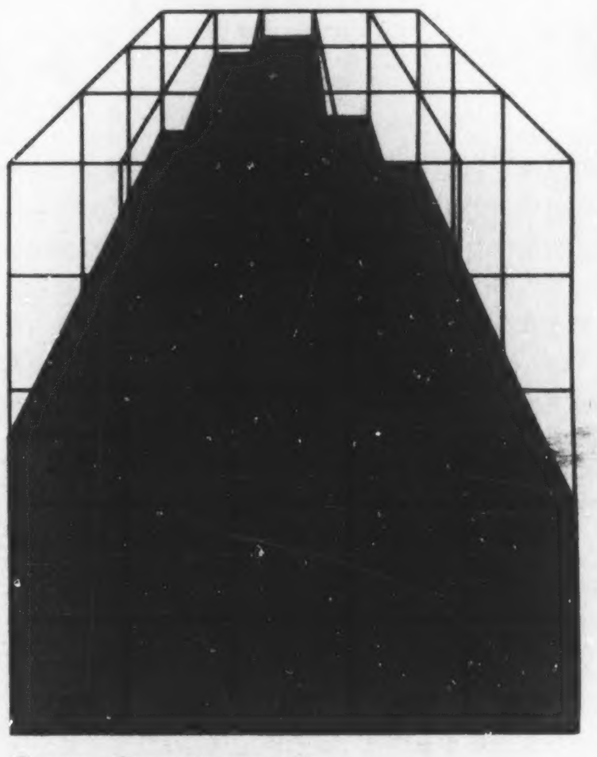
"We're backfilling our neighborhoods" and not worrying about closeness as much as in the past, said Gross, noting that good sites are getting very hard to find.

"We do heavy demographic evaluations," he added, noting that suburban trading areas might be a mile to a mile-and-a-quarter, but just one-half to three-quarters of a mile in the boroughs of New York City.

Genovese has gained a local reputation for converting roller rinks, bowling alleys and bingo parlors in order to open in densely populated Brooklyn, the site of one of last month's openings and an area where independents are still strong. "There's nothing but people there, and it's not as expensive as Manhattan," said one chain executive.

Genovese earnings turnaround

(in millions of dollars)



Source: Company reports
[a]FY ended Jan. 30, 1987
[b]Includes $2.8 million on the sale of stores and land

Besides new stores, a concurrent emphasis on store remodels and expansions is meant to generate fast payback. Genovese plans 8-10 refurbishings this year, up from last year's pace.

And one of the new stores, in Williston Park, will be slated for similar treatment in two years, when adjacent space becomes available. For now, the site is less than 7,000 sq. ft. of selling space, considerably less than the chainwide average of 10,000 to 12,000 sq. ft. But Genovese plans to add to it, while limiting its seasonal and automotive space for now.

Downsized format ready

Genovese also has a downsized, upscale store format waiting in the wings for the right location. The company meant to unveil it this fall, but problems with a landlord prevented that store opening. "The idea is definitely not dead," said Gross.

Another March opening, in Mattituck, Long Island, is the chain's first appearance in this farming and shore community in Suffolk County, where summer seasonals should play a big role. The only other lease signed is for Lake Ronkonkoma in late summer.

Clearly, Genovese is concentrating on its home turf.

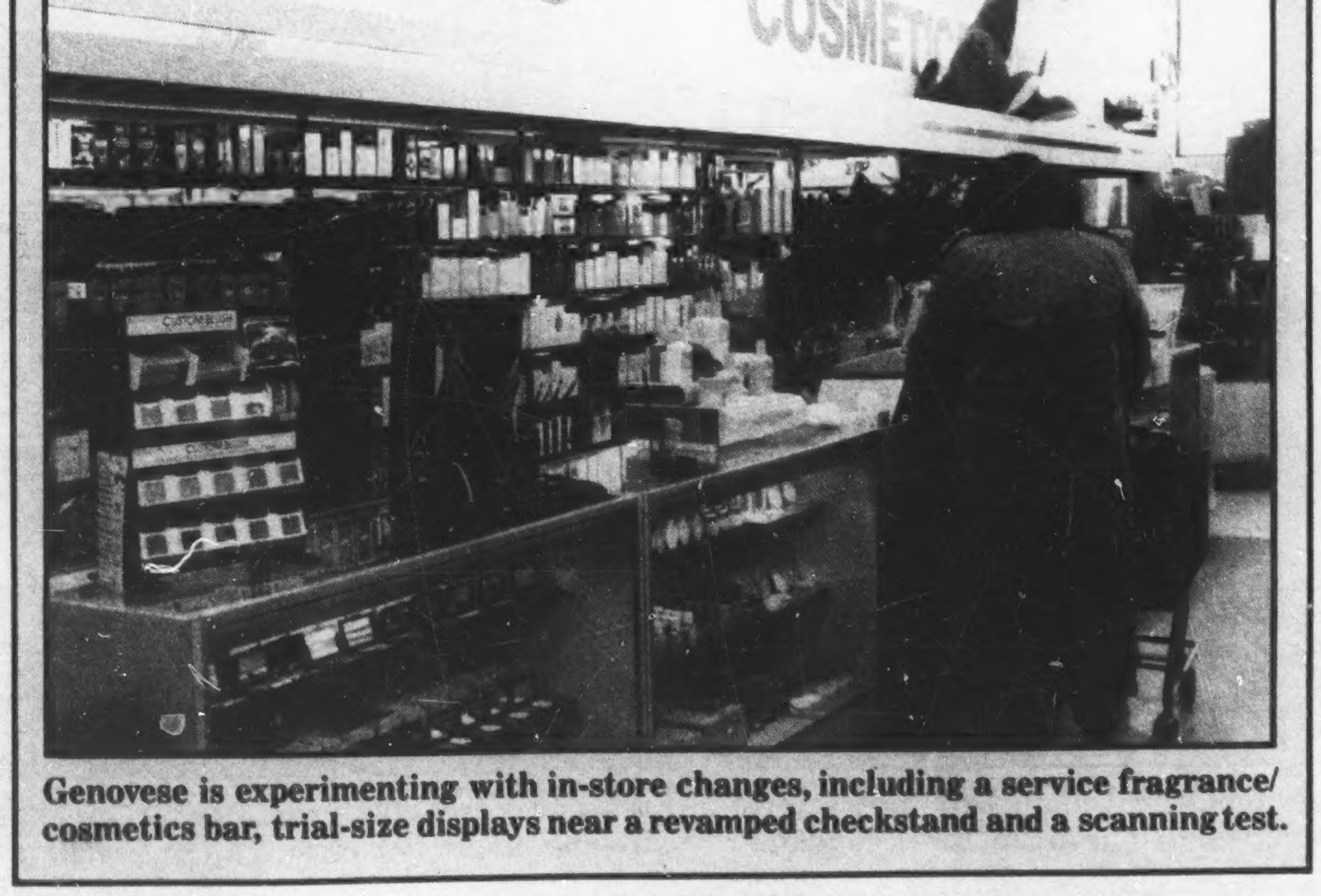
Genovese tests 1st POS scanning

The first POS installation at Genovese was more than a year in coming. Chain officials had spoken about it since early 1986, but had spent the past year fortifying distribution and merchandising before deciding to invest in the high-tech installations.

The Albertson, Long Island, store opened with a scanning system last month that covers between 60%-70% of the sku's it carries, said vp-marketing Don Gross. All checklanes are equipped in this first test store, but registers can also be hand-operated in case of problems.

Genovese plans to experiment with slot and hand-held scanners as it installs equipment in a second store this summer and possibly two more stores by the end of 1987.

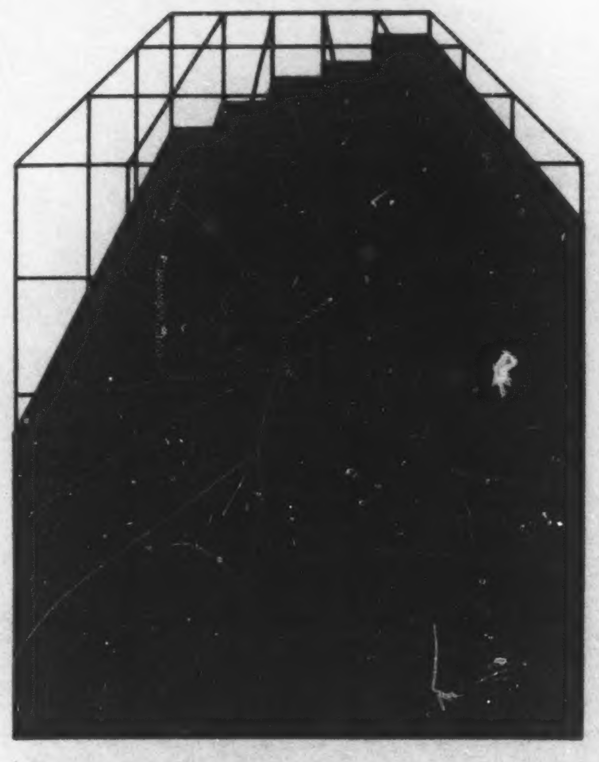
"If the program goes well, we'll roll out rapidly next year and set a goal to equip half the chain by 1990," Gross said. "There's no question we have to go this way," he added, noting that the ability to track performance of promotional items is one of their main criteria. He declined to say how much Genovese will invest in scanning, or how much of the capital expenditures budget it represents.



Genovese is experimenting with in-store changes, including a service fragrance/cosmetics bar, trial-size displays near a revamped checkstand and a scanning test.

Genovese sales continue climb

(in millions of dollars)



Source: Company reports
*FY ended Jan. 30, 1987

Dart recasts image, adds stores, rolls out POS

LANDOVER, Md. — Dart Drug Stores chairman Stephen Hansbrough had a big decision to make in the months following his chain's $160 million debenture float in mid-'86.

Should he chase sales and sacrifice margins in this highly promotional market, so Dart could generate extra cash to cover debt payments?

Or should he reposition Dart as a stronger competitor for the long haul?

The answer, and some of its short-term consequences, became clear in recent months when Hansbrough initiated a major recast of 81-store Dart. The campaign is meant to alter negative consumer perceptions of the chain which linger from pre-1984 leveraged buyout days.

The immediate consequence: a quality downgrade of its 12.7% senior debentures from B2 to Caa, the lower end of the speculative range, by Moody's Investors Service.

The bond sale was meant to enhance cash flow by $48 million between 1986 and 1990 and let Dart retire more than $100 million or remaining LBO debt without repaying principal until 1994.

Securing the future

"We're securing our future, not mortgaging it," Hansbrough said at the time.

Indeed, Hansbrough told *Drug Store News* recently he'd match Dart's bill-paying record against anyone's and has met all its interest payments to date. Still, the bonds have slipped by about 50% in value since the original offer.

To put the downgrade in perspective, the Standard & Poor's rating service said that, in 1986, it downgraded 364 corporate issues and upgraded 149. There has been a general loss in corporate credit quality the past few years.

That does nothing to diminish Dart's situation, however. The chain's future swings on Hansbrough's choice to build long-term strength.

"We expect the second half of the year to bear out the correctness of our plan," he said.

Advertising blitz

That plan includes an intensive media advertising blitz, more involvement by headquarters executives at store level, tighter cost controls and inventory management and more responsiveness to customers.

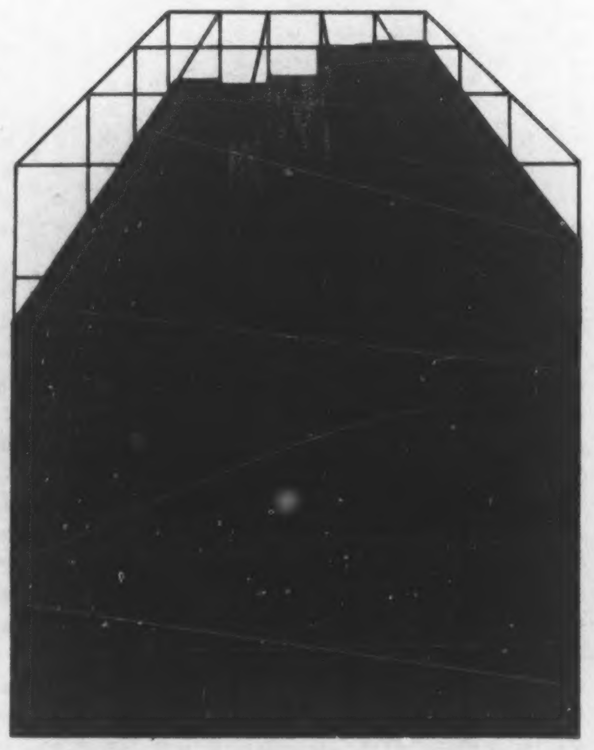
Hansbrough's executive team has placed staffers from all levels on 21 separate task forces to find solutions for operational and image problems.

That multifaceted program has apparently begun to take hold. January sales rose 5.5% and same-store sales, 1.5%. February was brisk too, said Hansbrough, who at presstime was awaiting results from recent surveys about the image campaign that began in November.

From mid-November through the end of January, Dart aired 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post*.

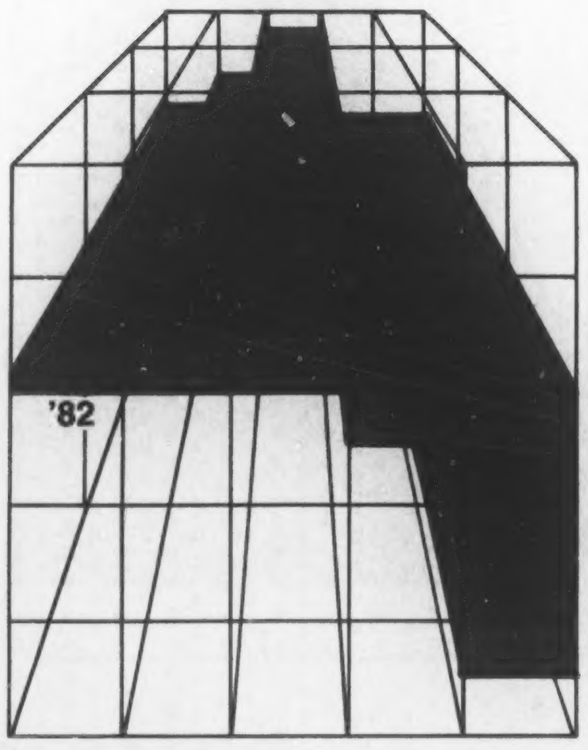
Dart has also moved to clean stores, speed checkouts, simplify traffic patterns and improve out-of-stock and return policies.

Dart sales edge up
(in millions of dollars)

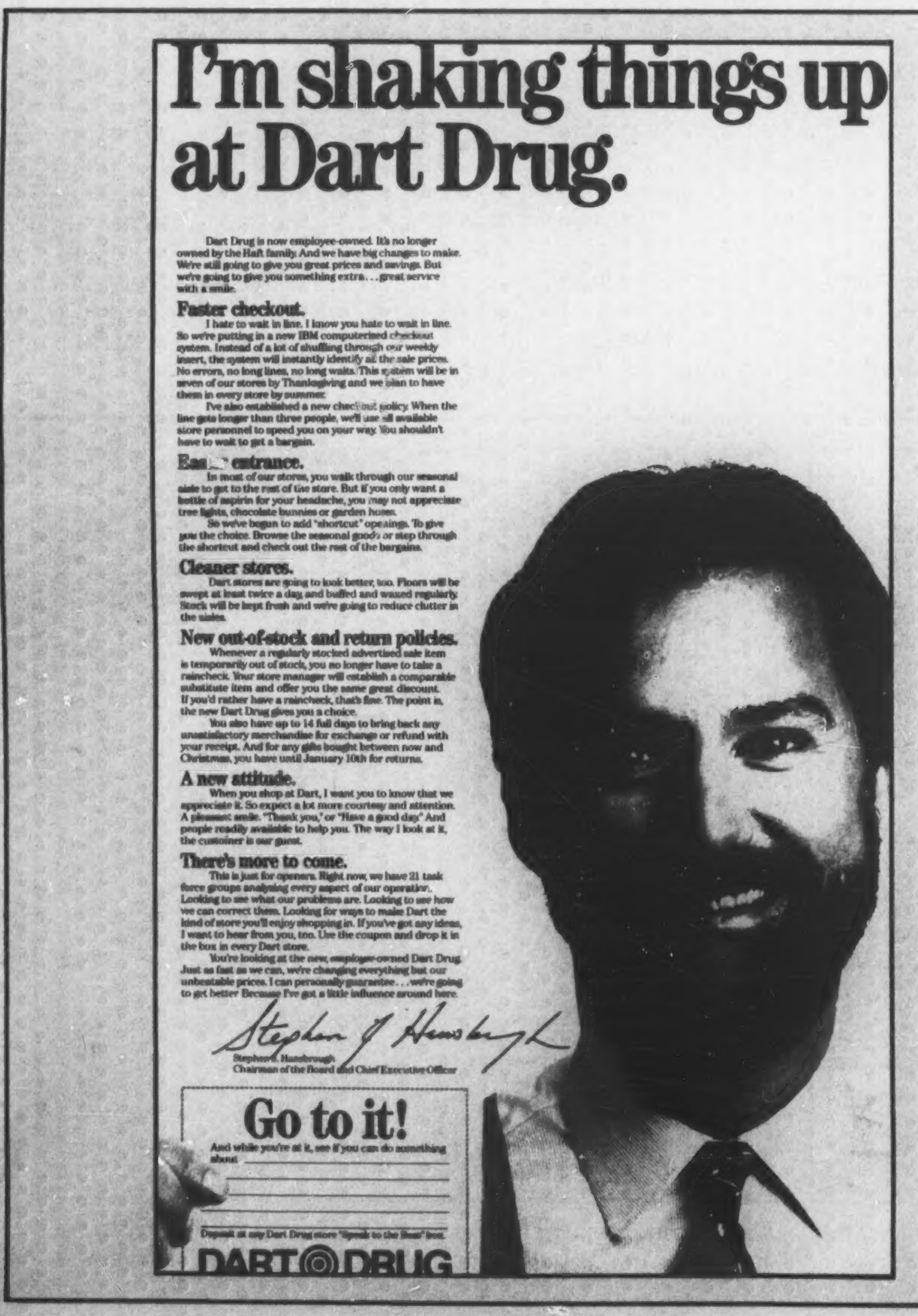


FY ended July 31
Figures reflect changes in fiscal year
Source: Company filings

Dart net results
(in millions of dollars)



FY ended July 31
Figures reflect changes in fiscal years
Source: Company filings



I'm shaking things up at Dart Drug.

Dart Drug is now employee-owned. It's no longer owned by the Haft family. And we have big changes to make. We're still going to give you great prices and savings. But we're going to give you something extra . . . great service with a smile.

Faster checkout.

I hate to wait in line. I know you hate to wait in line. So we're putting in a new IBM computerized checkout system. Instead of a lot of shuffling through our weekly insert, the system will instantly identify all the sale prices. No errors, no long lines, no long waits. This system will be in seven of our stores by Thanksgiving and we plan to have them in every store by summer.

I've also established a new checkout policy. When the line gets longer than three people, we'll use all available store personnel to speed you on your way. You shouldn't have to wait to get a bargain.

Easier entrance.

In most of our stores, you walk through our seasonal aisle to get to the rest of the store. But if you only want a bottle of aspirin for your headache, you may not appreciate tree lights, chocolate bunnies or garden hoses.

So we've begun to add "shortcut" openings. To give you the choice. Browse the seasonal goods or step through the shortcut and check out the rest of the bargains.

Cleaner stores.

Dart stores are going to look better, too. Floors will be swept at least twice a day, and buffed and waxed regularly. Stock will be kept fresh and we're going to reduce clutter in the aisles.

New out-of-stock and return policies.

Whenever a regularly stocked advertised sale item is temporarily out of stock, you no longer have to take a raincheck. Your store manager will establish a comparable substitute item and offer you the same great discount. If you'd rather have a raincheck, that's fine. The point is, the new Dart Drug gives you a choice.

You also have up to 14 full days to bring back any unsatisfactory merchandise for exchange or refund with your receipt. And for any gifts bought between now and Christmas, you have until January 10th for returns.

A new attitude.

When you shop at Dart, I want you to know that we appreciate it. So expect a lot more courtesy and attention. A pleasant smile. "Thank you," or "Have a good day." And people readily available to help you. The way I look at it, the customer is our guest.

There's more to come.

This is just for openers. Right now, we have 21 task force groups analyzing every aspect of our operation. Looking to see what our problems are. Looking to see how we can correct them. Looking for ways to make Dart the kind of store you'll enjoy shopping in. If you've got any ideas, I want to hear from you, too. Use the coupon and drop it in the box in every Dart store.

You're looking at the new, employee-owned Dart Drug. Just as fast as we can, we're changing everything but our unbeatable prices. I can personally guarantee . . . we're going to get better. Because I've got a little influence around here.

Stephen J. Hansbrough

Stephen J. Hansbrough
Chairman of the Board and Chief Executive Officer

Go to it!

And while you're at it, see if you can do something about ____________________

Deposit at any Dart Drug store "Speak to the Boss" box.

DART DRUG

Point-of-sale installations, which could improve inventory management and central pricing strategies measurably, are moving "ahead of schedule," Hansbrough said. About a dozen stores are equipped, either fully or in modified fashion that gives Dart electronic price look-up on advertised items.

He expects to equip all stores, at least in the modified style, by the summer.

Distribution efficiencies

POS is particularly important to Dart, which advertises 500 items each week and has been vulnerable to pricing errors and lost margins because of the high number of promotional sku's.

And ever since Dart Drug was freed from providing warehouse services to Trak Auto and Crown Books a year ago October, the drug chain has been able to use its 600,000-sq.-ft. DC for its own stores. That's led to greater buying and distribution efficiencies.

The DC can accommodate 40 to 50 more stores and is already being used to warehouse Rx items and improve in-stock positions. Dart also price-marks 85% of merchandise at the DC, speeding flow to store shelves and eliminating the need for backroom space, of which there is little in the smaller stores.

The small store format has rapidly become a key part of Dart's expansion program for several reasons. They enable Dart to penetrate downtown Washington markets that wouldn't be able to support larger stores. Their unusually upscale design approach makes Dart a more acceptable tenant to business center landlords. They expose lunchtime shoppers to the "new" Dart, so they might consider giving the Darts near where they live a second chance. They're highly productive, generating more than $500 sales per square foot, and less expensive to open and operate profitably.

The 4,000- to 7,000-sq.-ft. format will make up nearly half the 30 new stores Dart expects to open by 1989, many in inner-city areas. Hansbrough plans to locate stores so Dart services weekday business center trade and lower-income neighborhoods. He wants Dart to be "the hometown chain . . . be downtown in a big way . . . to service everyone who lives and works here."

Downsized store format

Dart's first downsized store opened last summer at 20th and L Streets. It is "on target" toward meeting its $500 sales per square foot goal at the end of its first full year of operation and will eventually approach the $700 level, Hansbrough said. The store is expected to mature at 120 scripts per day. It employs a multilingual cosmetician who speaks five languages and helps service a consistent tourist trade.

It is set in gray and maroon, with glass shelving and neon and baffled lights. The store has been the chain's showpiece this past year and a signal to the marketplace that Dart can produce stores capable of reversing lingering negative images of the chain.

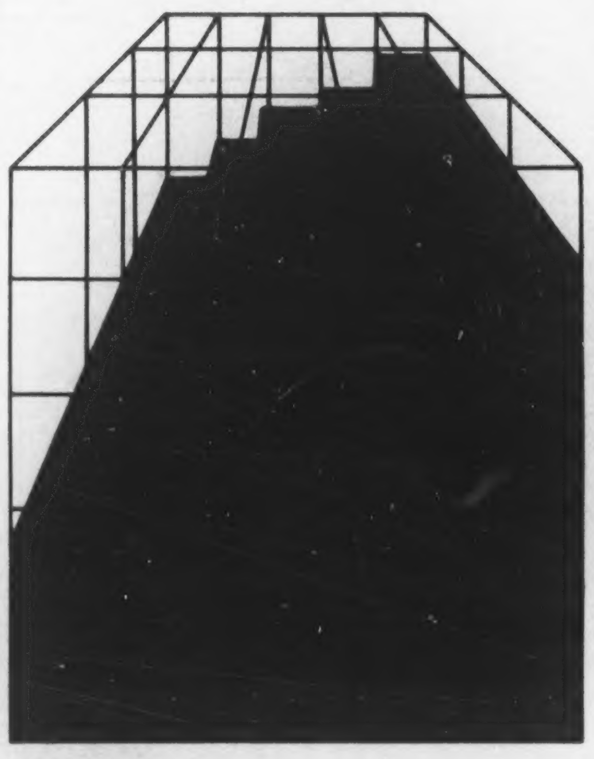
While Dart scrambles to improve on many fronts, its fiscal performance has wavered. Sales in the year ended July 31, 1986, rose slightly to $261.9 million from $259 million in the prior year. The net loss widened, however, to $15.6 million, compared to $2.6 million in the prior year.

A $5.9 million prepayment bill to retire its original LBO debt accounted for much of the difference, as did an additional $2.7 million in insurance costs and a half million dollar climb in advertising expenses, said Darryl Bryant, Dart senior vp and cfo.

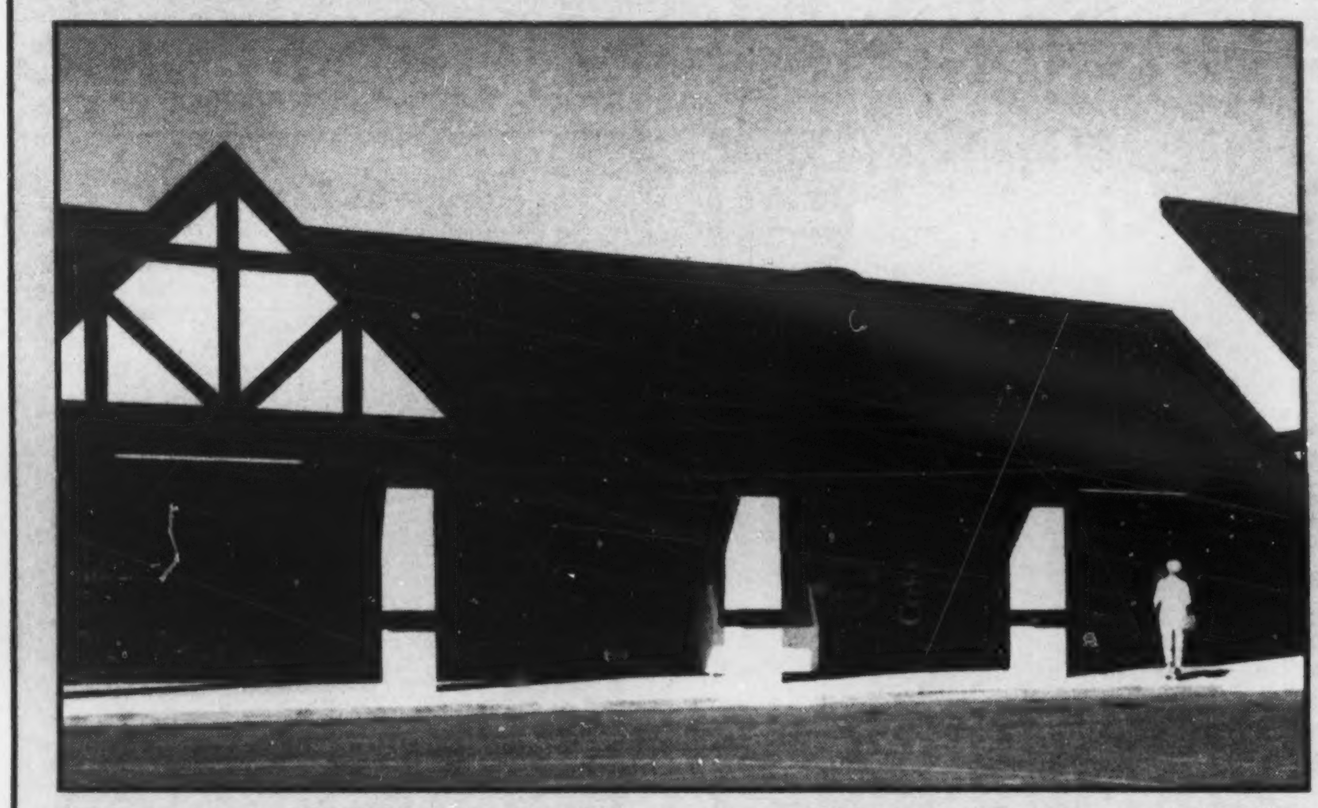
In the quarter ended Oct. 31, sales dipped to $60.9 million from $63.1 million in the same quarter a year earlier, despite additional stores. The net loss widened from $451,000 in the same year-ago period to $4.9 million. That's mostly due to $2 million additional interest expense, lower gross profits because of lower sales and increased salaries to staff newly opened stores, Bryant said.

"People refinanced homes, bought cars and had less disposable income," Hansbrough cited as reasons for the sales dip in the quarter that preceded its aggressive image campaign.

Big B sales grow 20%
(in millions of dollars)

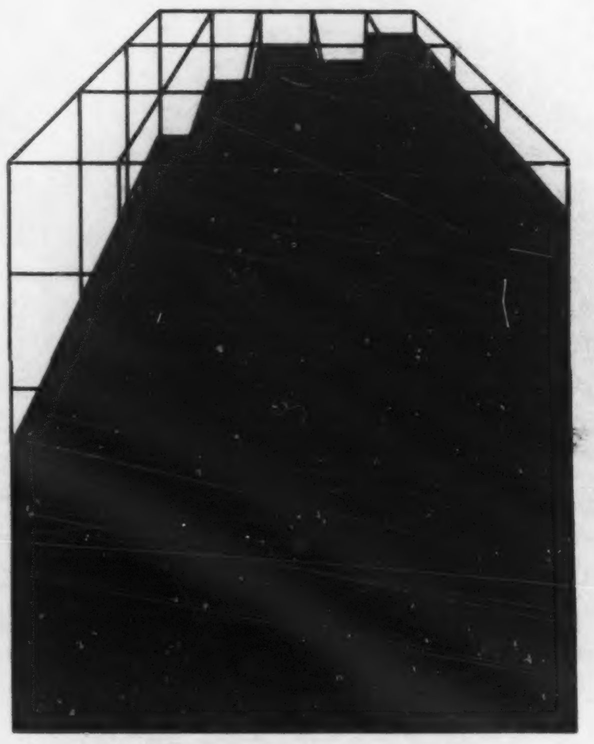


Year ended Feb. 1



This unit outside Birmingham, Ala., was one of 28 stores Big B opened in 1986 with a 20% unit growth plan that continues in 1987.

Big B profits rebound
(in millions of dollars)



Year ended Feb. 1
Source: Company reports

Big B rolls out stores to 'blanket the Southeast'

BIRMINGHAM, Ala. — Big B pursued its goal of becoming a dominant presence throughout the Southeast by expanding its drug store count 22% in 1986. In rolling out 28 drug stores in five states, the chain ended the year with a total of 153 stores.

Big B also posted a sales gain of 20% for the year, continuing the strong pace of the last five years. Sales for the year ended Feb. 1 topped out at $209.8 million, compared with fiscal 1986's $175.4 million.

The store growth was even more impressive than last year's, when Big B launched 21 new units in its aggressive drive to "blanket the Southeast" and move beyond its Alabama stronghold.

Store growth impact

Stores were launched in Tennessee, South Carolina, south Georgia and south Mississippi, as well as in Alabama.

While the strong growth took a toll on earnings early in the year, there was a rebound by year's end.

The chain launched the year with a rousing first quarter, which shook off an earnings slump in the fourth quarter caused by a move to a new distribution center. First-quarter income was up 28.4% to $1.6 million.

But profits began to slide, due to stiff store-startup costs and lower gross margins that resulted when the chain tried to slug it out on electronic hardware and back-to-school merchandise with discounting competitors such as Wal-Mart.

Customers cherry-picked heavily promoted VCR's and back-to-school notebook paper, which cut into gross profits for the quarter. The third-quarter gross margin dropped 2.6 percentage points to 26.7% from the previous year's period.

Competition stiff

Big B pulled back on merchandising of electronic hardware and raised prices on selected items of hardware and stationery. Margins were being restored by year's end. Wal-Mart and K mart pharmacies and Bruno's combination units added heat to the competitive climate.

The third quarter ended Oct. 25 saw a $65,000 loss compared to a $668,000 profit in the comparable year-earlier period. The loss of the investment tax credit also dragged net income down in the period. Sales, though, were up 22% to $47 million, with same-store sales up 8%.

A more upbeat fourth quarter followed, with earnings at $1.74 million, compared with 1985's $1.15 million.

Year-end earnings were $4.47 million, up 10% from 1986's $4 million. Earnings per share for both years were 61¢, reflecting increased shares outstanding in 1987 due to a stock sale in June. There were 11% more average shares outstanding in 1987 than in 1986.

Growth plans modified

The heavy store start-up costs caused Big B to scale back its new year's growth plans somewhat in order to bolster its earnings performance in 1988. It planned to open 20-25 units, increasing units by 13%-16%, rather than the 30-unit increase it had forecast earlier.

The chain also felt there will be less pressure to capture sites in the Southeast, since both Revco and Eckerd—key rivals for locations—are moderating store rollouts in their post-leveraged-buyout operating modes.

B-Marts on track

While the chain didn't add any more of its B-Mart Food and Drug combo units, ending the year with five, it put them on a profitable track. It hired Mac Baird, a former executive with Giant Foods out of Atlanta, to turn around the units, which have suffered from Big B's inability to warehouse a high percentage of grocery merchandise. Four of the five combos reached profitability, and the fifth broke even. "They didn't find them initially to be the bonanza they had hoped they would be. They're still under close scrutiny," said one observer.

With Baird's appointment, Steve Collins, who had headed the B-Mart division, was named to the new post of regional operations director, with responsibility for all retail operations, reporting to Robert Little, vp-store operations.

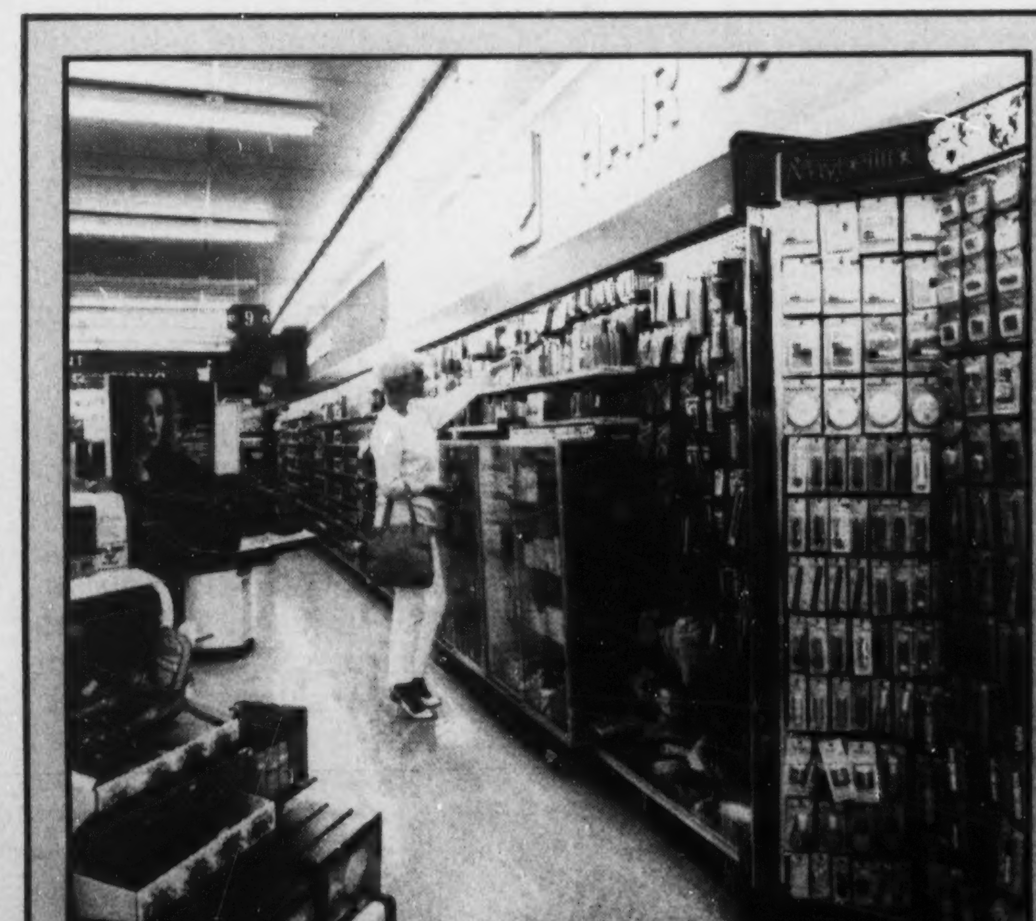
The chain increased its commitment to the deep discounting business. It opened two more Drugs-For-Less deep discount units, joining the first store in Birmingham, which it had opened in November 1985. The 10,000-sq.-ft. units include pharmacies.

Big B also launched its fifth home health care center in a freestanding Dotban, Ala., store.

Central computer installed

Big B took a major step toward developing its computer system for store operations by installing a central computer at corporate headquarters. The computer will be integrated with its POS cash register units in its stores. The central unit—a large configuration of an IBM PC—will allow price updating to stores from a central point and afford buyers a means to track sales and monitor promotions.

Big B also decided to roll out the POS system—with scanners—into all of its stores. The POS system works "transparently" with Big B's pharmacy system, so files of one can easily be transferred to another. Officers at corporate headquarters will be able to get a complete picture of front-of-the-store and pharmacy performance through one report at the central computer.



Big B integrates makeup with fragrances and hair care at the entrance of its Rocky Ridge unit.

The chain puts a greeting card set directly across from cosmetics to maximize impulse buys from female shoppers.

A thriving Thrift sets brisk unit rollout pace

PITTSBURGH — Thrift was poised to roll out new drug stores at a brisk pace, after posting its fifth straight year of record sales and earnings.

The JC Penney subsidiary planned to open 30 new stores in existing markets in Pennsylvania and New Jersey, Atlanta and Kansas City. That's a step up from the 21 launched last fiscal year, which was a hefty advance over expansion in recent years. In addition, Thrift plans to remodel 40 stores in 1987, the same as in 1986.

Drug store earnings growth outpaced sales, Thrift sources said, while in double digits on both counts in the fiscal year ended Jan. 31.

Total Thrift sales, including the mail-order prescription business, were $803.9 million, up 14% from 1986.

Sales for the 392 drug stores operating at year's end were $666 million, up 8.5%; earnings grew faster, Thrift officers said.

DME program expanded

During the year, Thrift began its own delivery and service program for durable medical equipment in its Atlanta market and then expanded it to stores in six other states. The program was offered through the 280 units that had been providing DME to customers through a joint venture with a dealer for 3½ years.

Thrift made the strong commitment in the home health care segment because it blended well with its health care image and can be supported by the customers' trust of pharmacists.

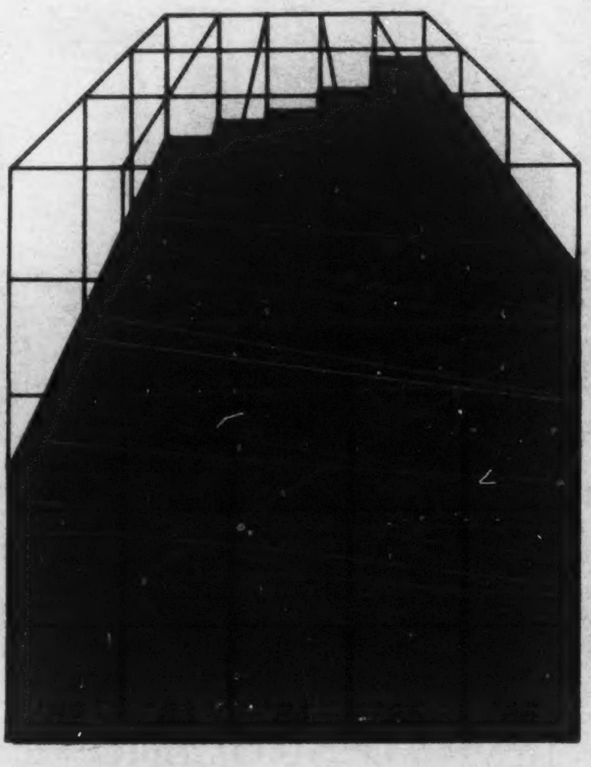
Customers can call pharmacists on an 800 number to order goods and discuss needs. They can order from the stores or at home, receiving products through Thrift's own delivery fleet. The chain set up four primary distribution centers, in Atlanta; Reading, Pa.; Cherry Hill, N.J.; and in Pittsburgh, which carry a full line of DME.

'Frequent buyer' builds sales

Thrift continued to participate in a "frequent buyer" program that officials said was building sales among its participating drug stores. Consumers were accounting for tickets much higher than the chain had predicted going into the program, thus diluting the impact of the $1 rebate the drug stores gave to customers who made $10 purchases with filled stamp books.

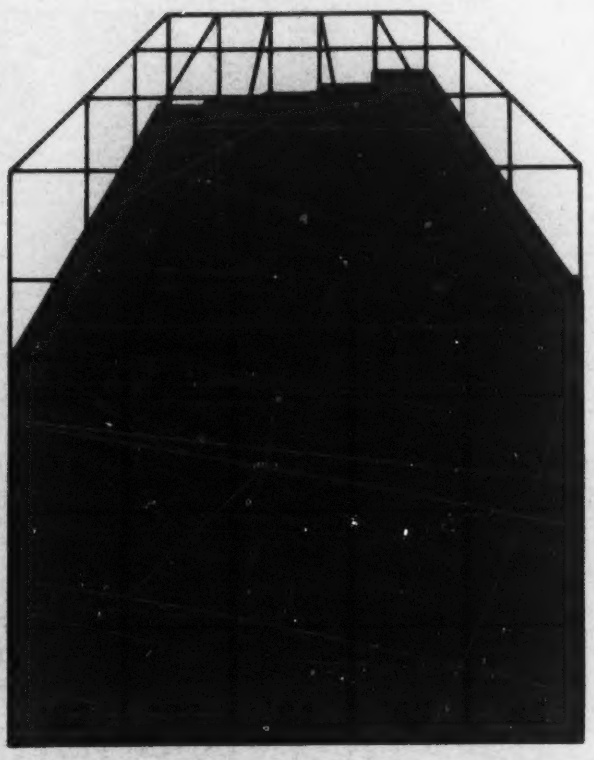
Thrift planned to enter in March its third 26-week contract for the program, which involves Acme Supermarkets and hundreds of other participating retailers.

Thrift sales grow 14.2%
(in millions of dollars)



*Year ended Jan. 31
Source: Company reports

Thrift grows by 20 drug stores
(Number of stores)



Source: Company reports
*Fiscal year ended Jan. 31

The chain moved forward on several fronts to automate the front end. It planned to begin rolling out a POS system into 50 stores this year that will use wand and slot scanning. (Pharmacy systems are in all but 15 stores and will be installed in all new ones.)

Thrift also began testing a computerized in-store video display terminal that allows customer interaction through a touch screen. The chain was evaluating results of a three-month test of nine units that were put into six stores in Pittsburgh and Philadelphia.

The system is built around a freestanding computer that is able to receive and display television images. It can carry advertising and dispense coupons or advice.

Thrift reshuffled top management to compensate for the departure of Robert Oberfield, senior vp-store operations. President James Armor announced that Anthony Civello would take over Oberfield's post, with responsibility for stores and catalogs.

Medicine Shoppe succeeds with strong Rx image

ST. LOUIS — With the kind of low-key approach befitting a strictly pharmacy-oriented franchise operation, Medicine Shoppe International has quietly catapulted itself into the upper ranks of chain drug retailing in recent years.

Utilizing a tiny store format of 1,050 sq. ft. and a nationwide network of devoted pharmacist-franchisees, the 19-year-old company has found a solid niche in dozens of major markets.

The chain has successfully positioned itself in all 48 contiguous states as a convenient, service-oriented neighborhood drug store. Its tight retail focus is devoted almost exclusively to providing health-care products and services, with prescriptions accounting for 91% of its franchisees' business. The remaining 9% is made in OTC drugs, vitamins and other health-related products.

Active in outreach programs

Its powerful image as a health care provider is bolstered by an active slate of health-related outreach programs for the communities in which Medicine Shoppe operates. The franchise chain participates in numerous health-care screenings in local communities for cancer, high blood pressure, diabetes and other problems. Its pharmacist-owners are also encouraged to provide extensive patient counseling at the pharmacy counter and to get involved in community healthcare efforts through talks at schools and nursing homes, board memberships, etc.

"While our pharmacists' excellent service continues to generate industry-high loyalty levels, our marketing programs must first attract customers to the Shoppes," the company noted in its recent annual report.

In fact, the company reported, the three national healthcare screenings and more than 3,200 local screenings its franchises conducted last year were directly responsible for luring more than half a million potential customers into the stores.

The company's tight pharmacy-oriented focus and its attention to service have paid off. Total sales reported by its 641 pharmacies in operation last year were up 15% on a same-store basis, 22% overall, to $261.5 million. Net earnings were up 21% to $3.6 million.

Medicine Shoppe's central office is also facing unprecedented demand from pharmacists interested in running their own small businesses. The company began fiscal 1987 with a backlog of 169 signed license agreements for new stores and a cash position strong enough to finance growth internally. "We are laying the foundation for continued growth—to and beyond the 1,000-unit level," noted president Jerome Sheldon.

Eschewing the broadbased merchandising approach of most chains and independents, Medicine Shoppe has achieved its rapid growth by selectively targeting middle-aged and elderly middle-income consumers. The stores guarantee the lowest Rx prices in their market areas and stress extensive professional services. Patient compliance and potential adverse drug reactions are monitored through the use of detailed patient profiles, brochures, counseling and filmstrips.

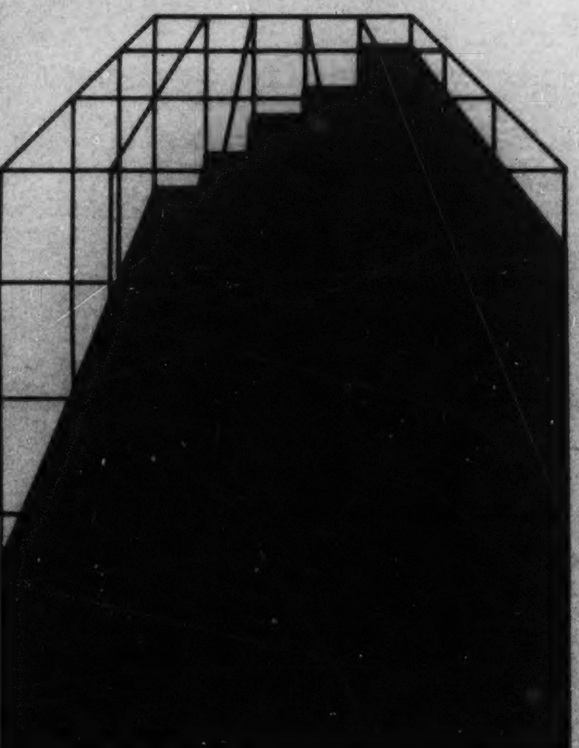
Generics promoted

To help assure low prescription prices and profits, generic drugs are promoted and operating expenses are held down in a variety of ways. Medicine Shoppe pharmacies are open only 43 hours a week and, without sundries, require the staffing of just one pharmacist-owner and one clerk. The tight inventory profile and low space requirements reduce carrying and rental costs, and advertising is often piggybacked on screening programs that rely on free publicity to further cut costs.

"Medicine Shoppe International is an excellent example of an astute marketing organization that carefully has defined its target market, developed a product and service offering to satisfy the target market's wants and properly priced, promoted and distributed the offering," noted one report on pharmacy marketing.

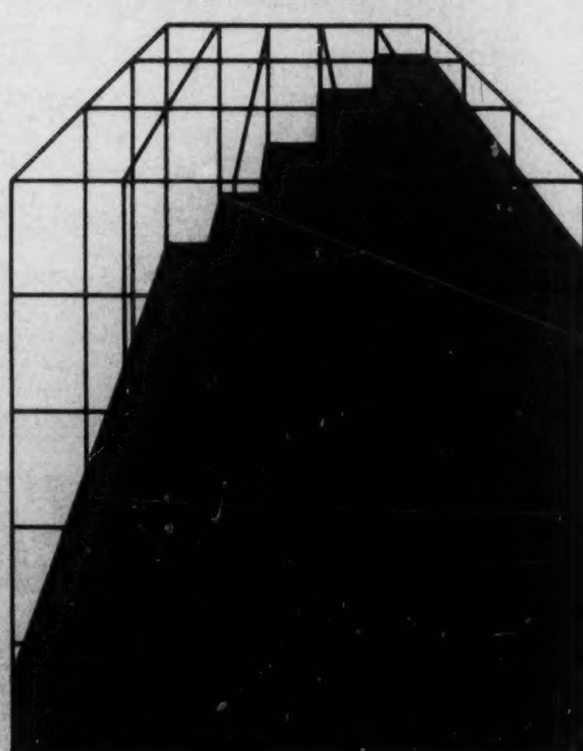
To maintain growth momentum, Medicine Shoppe executives have committed to a major, $1 million upgrading in automation. The new system will be capable of handling the information flow and data processing needs of a chain of well over 1,000 pharmacies, as well as third-party prescription claims processing and improved site selection ability, said Sheldon.

Medicine Shoppe sales increase
(in millions of dollars)



Source: Company reports
Fiscal year ended Sept. 30, 1986

Medicine Shoppe net income rises
(in thousands of dollars)



Source: Company reports
Fiscal year ended Sept. 30, 1986

Arbor builds Mich. base, launches in new markets

TROY, Mich. — Arbor Drugs went public in 1986, signaling its emergence as a major regional drug chain and an aggressive, growth-oriented competitor for Perry Drug Stores in Michigan's lower peninsula.

Much of the $17.6 million in new capital raised by the public offering went into the buyout last August of Sentry Drug Stores, a privately held, 19-store chain based in nearby Romulus, Mich. The Sentry acquisition gave Arbor a net addition of 17 stores and boosted its store total to 69. It also strongly bolstered the growing chain as the No. 2 drug retailer in the greater Detroit market, the nation's fifth-largest drug store market.

Fiscal 1986 was significant for Arbor in other ways, as well. For the first time, the chain leaped well beyond its southern Michigan base, opening stores in Charlotte, N.C., and Myrtle Beach, S.C. A second store has since been added in Charlotte, and others will follow as Arbor begins to capitalize on what chairman and president Eugene Applebaum said was an area of new opportunity, despite its distance from the central office.

Expands home market

For the time being, the chairman said, most of Arbor's expansion will remain concentrated in its home market. "We expect to be operating 85 stores by the end of calendar 1987," he noted. "We will continue, of course, to be open to additional growth opportunities through acquisitions, which may present themselves during the course of the year. Based upon this anticipated growth, we are evaluating potential locations for new office and warehouse facilities."

Following its purchase of Sentry last year, Arbor launched an extensive remerchandising, remodeling and employee training program for the acquired Sentry units. The remodeling process is continuing, funded by the public offering and internally generated funds. The steady expansion pace is also continuing—Arbor had 72 units on line at the end of January.

Robust growth rate

Arbor's move into the public arena last year spotlighted a highly successful regional drug chain in detail for the first time. According to its first annual report as a publicly held company, Arbor has enjoyed a compound annual growth rate of 53.6% in its net earnings since 1981, to $9.2 million in 1986. Sales in the past five years have grown at a 29.4% compound annual rate, to $151.5 million in 1986 from $120.5 million the previous year. Same-store revenues rose a solid 11.1% last year, with average sales per square foot rising to $339 from $323.

Some of those gains were linked to especially strong sales in prescription drugs, which now account for 27.2% of Arbor's $3.2 million in average per-store sales. Arbor's strong support of low-cost generics has enabled it to boost its participation in HMOs and other third-party plans, company officials report.

Focuses on generics

"Arbor has expanded its prescription drug business by promoting the use of less costly generic drugs whenever possible and by entering into contracts with third-party reimbursement programs," a company report states. "The 'Arbortech' computerized pharmacy system in each store . . . enables the company to identify generic equivalents of brand-name drugs, control prescription prices, increase the speed of processing prescriptions and thereby expedite payments from third-party reimbursement programs.

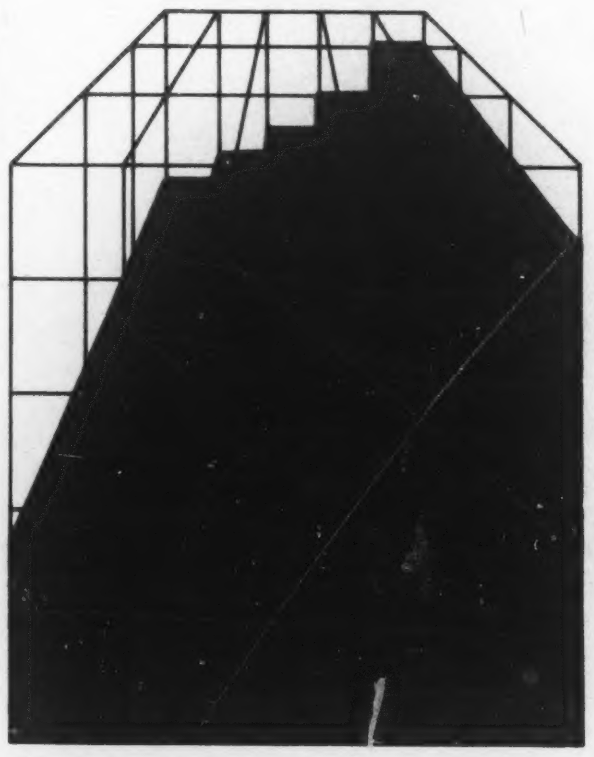
"This is especially important in Michigan," the report continues, "where more than half of the company's prescription sales are subject to third-party pay programs."

Arbor is also a strong promoter of private-label products, with more than 1,000 house-brand items in its stores and more on the way.

The chain also credits its aggressive photofinishing program with boosting overall results. Through a program called "Picture! Picture!" Arbor offers two prints for the price of one, with guaranteed overnight delivery. Photo sales now account for 8.8% of total revenues, according to the company.

Arbor Drugs sales climb

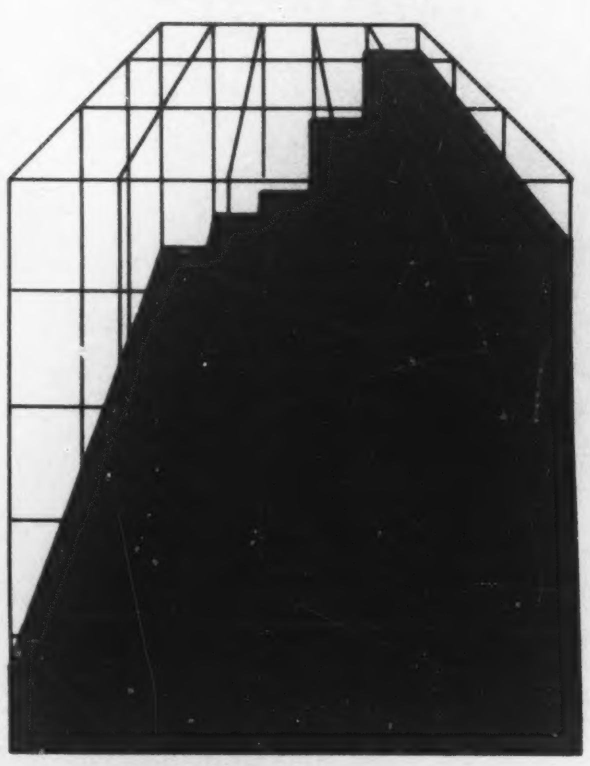
(in millions of dollars)



Source: Company reports
Fiscal year ended July 31, 1986

Arbor Drugs net earnings up

(in thousands of dollars)



Source: Company reports
Fiscal year ended July 31, 1986

Begley stresses identity as 'good health people'

RICHMOND, Ky, — Begley Co. moved to strengthen its retail division by reformatting and aggressively promoting a health care image for its drug and home health care stores.

It rolled out new formats for drug and home health care units and said that the division is improving as a profit center in relation to its industrial division—the dry cleaning stores, which accounted for 25% of 1986 annual revenue.

"What we're trying to do is make people understand that we are a drug store," said a Begley official regarding the updated prototype Begley has installed in three of its 42 drug stores. The format is part of a broad drive to reinforce Begley's identity as "the good health people": the provider of health care, name-brand merchandise and service.

Impact of write-offs

While Begley officials entered 1987 in a decidedly upbeat mood about the stores' future, earnings in the first nine months of fiscal 1987 (ended Dec. 31) were battered by write-offs.

Net income for nine months was down 25% from the comparable period in the 1986 fiscal year, mostly due to a one-time write-off on inventories and receivables. The write-off cut per share earnings by 53¢, leaving nine-month per share earnings at $1.18 ($652,000), compared with 1986's $1.57 ($870,000). The loss of tax credits cut the year-to-date earnings 11¢ more.

Sales were staying ahead of the previous year's, with nine-month sales at $56.4 million, 2.7% above last year's $54.9 million.

Begley had ended the 1986 fiscal year (March 30) with sales up 6.5% at $70.4 million, compared with $66.1 million. Its last full-year earnings were hurt by a higher tax rate and corrections to overstated receivable balances. Earnings were $701,000, compared with $694,800 in fiscal 1985.

Begley planned to roll out its new drug store format into new stores and into remodels, which are also receiving a new decor package. Chairman Robert Begley said the format will be the model for the next generation of the chain's drug units.

Begley geared up to organize its customer base with a trade show. The chain is planning a four-day event in May that will bring together manufacturers, vendors of services, entertainers, lecturers and "Zuppies"—zestful upscale people in their prime.

The 50- to 65-year-old age group is a key target audience for the drug store business, since it is fast growing, has many health needs and has money to spend.

The chain ended the year with 42 drug units, a zero net gain. Officers said emphasis was placed on paring out marginal and underperforming units as part of an operations reassessment.

Home health overhaul

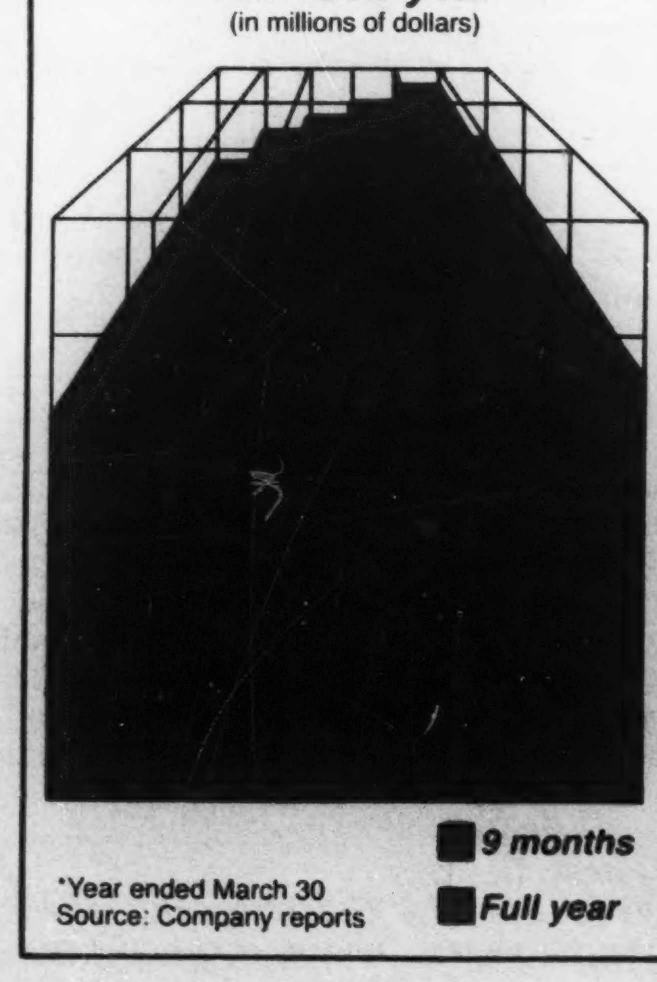
When it opened its seventh home health care store in December, the unit featured a new look designed to work best in small-town markets.

The new format was only one aspect of an overhaul of the home health care business that refocused inventory, revamped Medicare billing and created a new program for customer education and detailing to professionals.

Begley completed installing its Health Mate pharmacy computer system in all stores and is now studying how to integrate the computers with electronic cash registers at front-of-store and with the corporate office central system.

Begley sales up 6.5% for 1986 year

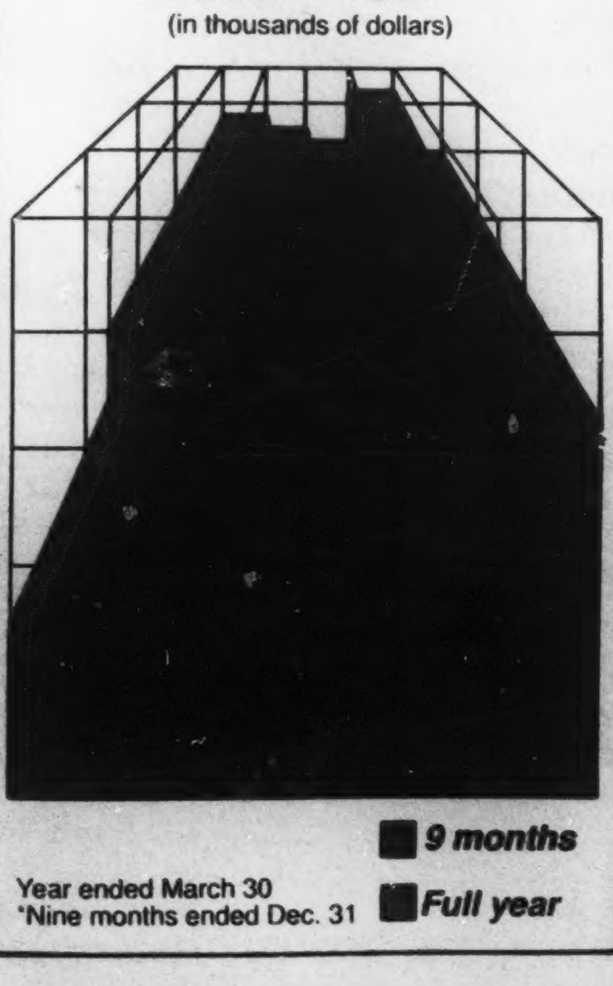
(in millions of dollars)



*Year ended March 30
Source: Company reports

Begley earnings skid in 1987

(in thousands of dollars)



Year ended March 30
*Nine months ended Dec. 31

Advanced Rx computers aid in management

NEW YORK — Significant advances in software development and more technology for the buck are enabling pharmacists to use computers far beyond the routine of recording prescriptions and typing labels.

Pharmacists, once fascinated by the speed and accuracy with which a pharmacy computer system would record prescriptions in patient profiles, are turning more of their attention to using the computer as a store management tool.

For some retailers, such store management tasks as tracking third-party prescriptions, analyzing sales data and keeping prices up to date played a major role in their decision to purchase a system.

"We realized that any computer system we purchased would have to do more than just type labels and record prescriptions on patient profiles," said Irby Bourque, assistant pharmacy director for K&B. "With the increase in third-party business, it was essential to get a system that would allow us to make sure that what we are billing we are receiving."

Needed versatility

K&B began installing freestanding pharmacy computer systems in all of its 110 stores two years ago, a project that Bourque said will be completed this October. After testing several systems, the New Orleans-based chain settled on a system it believes fills its needs.

"It's a big investment and you want to make sure that the unit you finally end up with will do everything you want it to do," said Bourque.

With its new system, the chain could change wholesale prices of product every day if it wanted to, but prices are routinely changed weekly, according to Bourque.

"Even more important is the ability to change NDC [National Drug Code] numbers," explained Bourque. "With so many products changing hands because of acquisitions and the like, the computer makes the chore of keeping track of those numbers easy."

Every product is assigned an NDC number unique to the company manufacturing or distributing the product. When a product changes hands, a new NDC is assigned. Bourque said keeping tabs on those changes is particularly important because every third-party prescription form requires the product's identifying NDC number.

Bourque is not alone in his expectations from a pharmacy computer.

Chain drug stores with 100% computerized pharmacy departments

Company	No. of stores
Longs	222
Perry	210
Fay's	153
Big B	153
Genovese	79
Kerr	70
Snyder	55
Arbor	51
Taylor	45
Discount Drug Mart	22
Drug Fair of N.J.	21

Source: *Drug Store News* 1987 Chain Drug Survey

According to a survey conducted by *Drug Store News*, more than three-quarters of the MIS executives polled ranked such features as price updates, filling in third-party forms and tracing third-party billings as "very important."

Other items on the executives' "wish list" of what they would like a computer to do were keeping patient profiles and warning of drug interactions.

The survey revealed that for the most part, the computer systems they purchased are filling the bill nicely. The executives responded that they were "extremely or very satisfied" from 53% to 90% of the time.

Many indys still without

While it seems that one would be hard-pressed to find a drug store without a pharmacy computer, according to Bill Lockwood, publisher of *Computer Talk*, it is estimated that anywhere from 40% to 45% of independents still do not have a computer system.

"While virtually every chain has some computer system in some stores, we estimate that 75%-80% of chain *units* are operating pharmacy computers," said Lockwood.

Lockwood believes that low entry-level pricing, combined with "broader and deeper applications," will make the computer even more desirable in the next few years.

Price factor

"Pharmacy computer systems are becoming affordable even for the little guy in business," said Lockwood. "At one time it was necessary to justify the cost of a computer based on number of prescriptions filled, but today, with entry-level systems so inexpensive and third-party prescription demands so high, it almost costs the average pharmacist more to be without a computer."

Over the past several years, pharmacy computer prices have dropped dramatically. Lockwood estimates that in the past year alone, prices have dropped nearly $1,500, 10% over the previous year.

Responsible for some of that decrease was a shift from mini to micro hardware. With the advent of more powerful personal micro computers, many pharmacy computer companies seized the opportunity of presenting their software on the less expensive machines. Leading the mar-

Continued on page 136

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Rx computers help tackle management tasks

Continued from page 135

ket in micro hardware for the past several years was IBM, but according to Lockwood, with the introduction of IBM clones, pharmacists can sometimes get an even better deal.

"And I'm not talking about no-name clones, either," said Lockwood. "There are several reputable computer companies like Texas Instrument, NCR, Leading Edge and AT&T, to mention a few, who have produced good, inexpensive, IBM-compatible hardware."

For drug stores that jumped on the computer bandwagon early, the time has come to upgrade their systems for the smaller, less expensive, but more powerful freestanding units.

At Hilley's Pharmacy, a seven-store chain headquartered in Burleson, Tex., the time had come to upgrade its on-line system it had been using since 1974.

"We were happy with our system but were told that they were going to discontinue it, so it was time to look around for another company," said Wayne West, director of pharmacy operations.

West said that a major criterion for him in choosing a new system was stability of the company.

"We've seen them come and go over the past 12 years," said West. "We also wanted a system that we could grow with."

West said the new in-store, freestanding systems give his chain more flexibility in handling prescriptions and getting hardware repaired.

"With the older on-line systems, all data was processed from our stores to a centrally located unit," explained West. "If there was a problem with our main processor, it interfered with operations at the store level. With freestanding units, each unit can be attended to separately."

West said that uniformity in hardware was also a key factor in the new installations.

"We made sure that all the hardware was from one company," said West. "Some of the companies mix and match hardware, and many times you have to search out separate companies to fix it. Now if we have a problem, we can go to one source to get it repaired."

Software variety

The newer, smaller personal computers have also allowed pharmacists to utilize the thousands of commercially available software packages.

According to Lockwood, pharmacists are beginning to use word processing programs, spreadsheets and even desktop publishing programs to manage and promote their stores.

"With word processing programs, pharmacists can send out a mailing to selected customers by just accessing patient profiles. This can be especially valuable for drug recalls," said Lockwood.

Lockwood said that some pharmacists are becoming even more creative by using their computers to publish newsletters to customers.

"With simplified desktop publishing programs out in the market, pharmacists can now develop a monthly or weekly newsletter with very little training," Lockwood explained. "The nicest thing about all these add-on programs is that they can all run off the same hardware as the pharmacy software."

Frees up pharmacists

While all these features have improved the way pharmacists are managing their prescription departments, for Bob Duffy, vp-professional relations at Happy Harry's, the computer has been a way of freeing up his pharmacists, allowing them to consult with patients.

"We encourage our pharmacists to spend as much time as possible interfacing and consulting with customers," said Duffy. "The computer allows our pharmacists to do this. We are training technicians to fill prescriptions off the computer and then letting our pharmacists check them. There is no reason for our pharmacists to spend time at the computer. His time can be better spent with the customer."

Other retailers are discovering that having a computer in their pharmacy departments makes for an excellent advertising campaign theme.

According to the *Drug Store News* computer technology survey, more than two-thirds of the chains with computer systems polled said they used it as a marketing/management tool.

Used in advertising

Some of the more popular themes used in their advertisements include fast service, efficient processing of scripts, patient security, ease of prescription renewal and overall cost savings to the consumer.

K&B recently ran a television advertisement that "humanized" a computer, which explained to the public many of the features they can expect when getting their prescriptions filled at a K&B store.

And at Fay's Drug, three 30-second spots highlight its Accu-Fay's pharmacy computer system by emphasizing the speed with which prescriptions can be looked up.

According to the survey, the majority of stores said they advertised their computer system through newspapers (80%), while others used radio (60%), direct mail (40%), in-store signs, bag stuffers, and brochures (36%).

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Condor's new centralized site service helps the system perform like never before, handling price updates to protect your profits, file transfers, centralized third party billing, and more.

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DRUG WATCH

Data service lists anti-ulcer drugs as top '86 sellers

NEW YORK — The antiulcer medications Tagamet and Zantac were the top-selling drugs of 1986, according to Pharmaceutical Data Services' annual top-20 list, announced at a press conference here last month.

While Tagamet, with 1986 sales of $419 million, maintained its lead, Zantac made great strides, increasing its sales by 38% to a total of $401 million, taking the No. 2 spot from Inderal, which this year slipped to No. 6.

If Zantac was one of the year's success stories, Inderal, which dropped 34% in sales, was one of the year's losers. The slippage was due to this being the product's "first full year of generic competition," said Michael Smith, PhD, PDS's vice president of sales and marketing.

Smith said Inderal's drop from $371 million in 1985 to $246 million in 1986 also disproves a point about generic beta-blockers.

"Generic propranolol was pooh-poohed by analysts who said consumers would not accept generics for cardiovascular disease," Smith said.

Smith said that based on PDS's tracking of the market, generics normally take 25% to 40% of the market after the first year but then rarely eat into more of the brand's market share.

Inderal's drop was so large that even though Dyazide's sales declined 7% from $282 million in 1985 to $261 million in 1986, it moved up from No. 4 to No. 3 on the list.

"Diuretics suffered because of generic competition and a change in therapy," Smith said.

One of the biggest gainers on the list was calcium channel blocker Cardizem, which increased 48% in sales from $140 million in 1985 to $207 million in 1986. Calcium channel blockers are not being used for hypertension control, and so are ACE inhibitors such as Procardia.

These new therapies are being used as a first line of treatment by some doctors because "16% of ACE inhibitor patients were not on anything else before," Smith said.

Vasotec, one of the newest ACE inhibitors, "receives the Oscar for the year's most successful launch," Smith said. He predicted that in 1987, its second year on the market, Vasotec will rack up $105 million in sales.

"The big news of the year was Feldene and the effect that adverse publicity can have on your product," said Smith.

Continued on page 141

Top 20 products
U.S. retail pharmacy sales
(in millions)

1985 rank	1986 rank	Product	1985	1986	% change
1	1	Tagamet	$397.9	$419.0	+ 5
3	2	Zantac	290.2	401.4	+38
4	3	Dyazide	281.9	261.1	− 7
8	4	Naprosyn	231.5	260.1	+12
5	5	Tenormin	253.1	254.9	+ 1
2	6	Inderal	371.5	246.5	−34
9	7	Keflex	210.7	228.0	+ 8
10	8	Procardia	195.9	212.3	+ 8
6	9	Feldene	240.5	210.8	−12
16	10	Cardizem	139.9	207.5	+48
14	11	Xanax	152.4	201.9	+32
12	12	Ortho-Novum	185.0	200.1	+ 8
23	13	Capoten	118.4	174.5	+47
7	14	Valium	234.6	166.3	−29
11	15	Lopressor	174.0	162.5	− 7
19	16	Ceclor	124.5	150.4	+21
17	17	Clinoril	129.8	131.0	+ 1
22	18	Transderm-Nitro	119.1	129.8	+ 9
20	19	Motrin	119.8	123.6	+ 3
13	20	Aldomet	167.7	108.6	−35

Source: Pharmaceutical Data Services Inc.

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to artificial insemination

these drugs is that they are not specific for the clot. He said these available medicines dissolve the clot but many cause serious bleeding complications because they also attack fibrinogen, the blood component from which the fibrin evolves.

There are "some very convincing studies" that demonstrate that dissolving clots is beneficial to patients in the early stage of a heart attack, according to the researchers.

* * *

At Baylor College of Medicine, Houston, arthritis specialists are studying a drug they hope will alleviate the ulcers and stomach pains caused by standard arthritis treatments.

Baylor is one of 30 centers studying the experimental drug misoprostol. Early results indicate that misoprostol may prevent the ulcers often caused by standard arthritis treatment.

According to Dr. Edward J. Fudman, a rheumatology instructor at Baylor, the new drug would help many arthritis sufferers who "are forced to discontinue therapy because of the treatment's side effects.

"We are looking for a way to allow these people to take the medication and minimize their stomach side effects," said Fudman.

The study is limited to people with osteoarthritis, a condition that occurs when cartilage, the rubbery tissue at the ends of bones, breaks down. This degeneration causes pain and sometimes inflammation in the joints.

"The nonsteroidals treat the symptoms of osteoarthritis," explained Fudman. "There are no treatments to prevent the underlying cause of the disease or to prevent the cartilage from deteriorating."

Anti-ulcers draw sales

Continued from page 139

Concerns about the risk of peptic ulceration and bleeding and a petition by Ralph Nader's Health Research Group to have the product banned took their toll on sales, according to Smith. Feldene lost the lead in the antiarthritic market to competitor Naprosyn and lost 12% in sales, dropping in rank from No. 6 to No. 9 on PDS's top-20 list.

Other observations by Smith:

- By a 2-1 margin, HMO doctors make no distinction between the brand and the generic drug.
- For the first time, a new delivery system drug has made it on the top-20 list. Ciba-Geigy's Transderm-Nitro patch ranked No. 18 for 1986.
- Generics account for 36% of the prescription ibuprofen market. New ibuprofen OTC products "have not impacted the prescription market."
- In a survey of 1,000 patients, side effects were the perceived reason for a discontinuance of medication by 23%.

* * *

Mylan has begun distributing the first generic version of Boehringer-Ingelheim's Combipres (clonidine/chlorthalidone). The estimated market for Combipres is $17 million to $18 million annually.

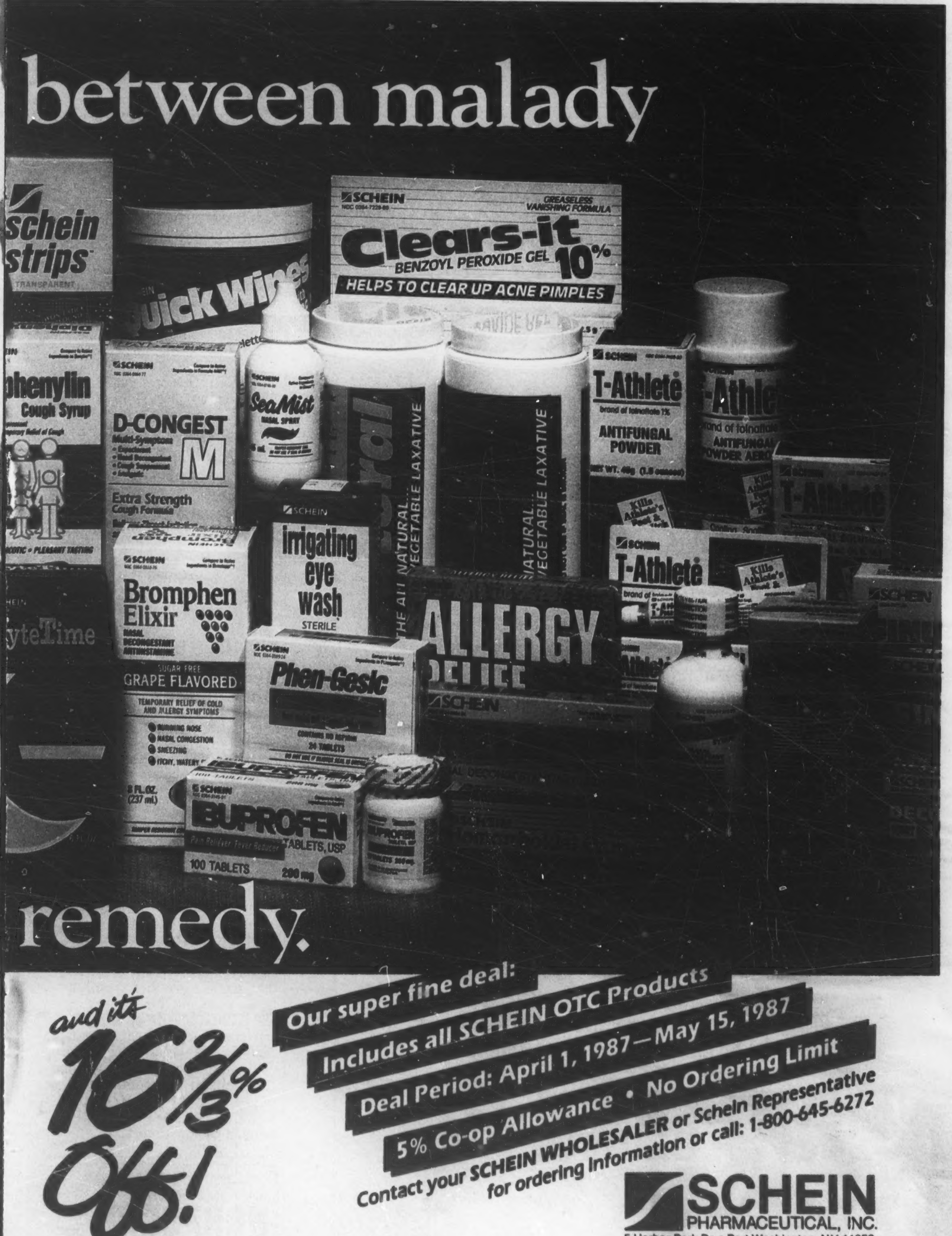
Mylan is selling its generic version at an average wholesale price of $23.35 for 100 capsules of 0.1mg clonidine/15mg chlorthalidone; $31.20 for 100 mg of 0.2mg clonidine/15mg chlorthalidone; and $37.70 for 100 capsules of 0.3mg clonidine/15mg chlorthalidone.

* * *

Bristol-Myers will be marketing a new oral form of VePesid (etoposide), used in combination chemotherapy as a first-line treatment of small cell lung cancer. The new oral form should be available for physicians this summer. Bristol-Myers received F.D.A. approval in January.

The company said the new oral form will help reduce visits to physicians and clinics and eliminate the need for some injections by allowing the patient to self-administer VePesid in its oral form.

According to the American Cancer Society, small cell lung cancer will account for 15%-30% of the 150,000 new cases of lung cancer in the United States this year. VePesid was the first chemotherapeutic agent that had been made available in more than a decade for the treatment of small cell lung cancer when it was approved for this indication in 1986, the company said.



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